

Discussion Paper on the CAP after 2020

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The diversity of agricultural systems in the European Union challenges policy makers asking for a renewed capacity to take into account the needs and the aspirations of all actors of the European countryside: farmers, consumers, institutions and territories.

The future CAP should carefully look at what can be considered today the "value added" that a European framework can produce for agricultural policy. Transforming national and local specificities into shared resources may refresh the role of the CAP as a fundamental laboratory for the European integration, 60 years after the signature of the Rome Treaties.

As a scientific society deeply committed to the process of knowledge creation supporting the design, implementation and evaluation of the CAP, the Italian Association of Agricultural and Applied Economics (AIEEA) wants to contribute to the reform process in the perspective of a dynamic and diversified countryside, where different forms of agriculture can contribute to the flourishing of European society.

This discussion paper was prepared in spring 2017 by a working group composed by AIEEA members who joined the public consultation on "Modernising and Simplifying the Common Agricultural Policy (CAP)" promoted by the European Commission. The aim of the paper is twofold. It allows our Association to contribute to the public consultation and it provides a starting point to feed the debate on the future of the CAP. Promoting a thorough reflection on the design and the development of a rural and agricultural policy, in connection with needs and expectations of Italian and European citizens, is part of the AIEEA mission. The hope is that this discussion paper may foster a wide and fruitful debate within both our scientific community and the European society.

Issues at stake in the current CAP

The functions that European people assign to agriculture are performed to a different extent and with a varying balance among different actors and territories. Large and competitive farms ensure the security of the food supply chain and manage a major share of the rural space. However, even though this productive model represents the largest part of output and income produced by agriculture, other models of small or alternative agriculture exist. They provide both commodities and public/social goods, often in marginal and fragile areas, as in urban and peri-urban agriculture, in the growing sector of social farming, in forms of integration oriented to solidarity between farmers and consumers or in forms oriented to the sustainability of rural economies.

Such a variety of farming models are likely to follow different personal motivations and economic incentives.

In front of this variety of European "agricultures", the current framework of the CAP mainly refers to an entrepreneurial-based and market-oriented model of farming, unsuitable to fit other forms of agricultural production and to adapt to marginal and disadvantaged rural areas. The European society faces a further decline of these forms of agriculture with the risk of losing much more in terms of public goods than in terms of private goods. As, for example, in case of the local economies and social cohesion in marginal areas, the conservation of valuable element of landscape linked to no longer profitable forms of cultivation, the countryside stewardship in rural areas.

The current CAP is a policy framework providing a number of objectives and instruments. Not always there are clear evidences of the matching between actual outputs of the policies (involved beneficiaries, supplied financial resources, affected agricultural land, etc.) and expected impacts. This entails problems of overlapping of tools, conflicts among instruments and objectives, which create, in turn, problems of effectiveness and efficiency. The reasons of such a complex structure have to be found in the pressure of countries, stakeholders and the Commission itself, each of which pursuing its own objectives. This translated into the use of multi-objective intervention tools (e.g. agricultural income support constrained to the reduction of environmental impacts) that, according to available empirical evidence, do not always work well.

Direct payments are the main policy tool within the current CAP. They were introduced in order to move towards a less distortive support of production and trade, better targeted and more evenly distributed among farms and among territories.

The main justification for the current European system of direct payments was tied to the provision of public goods that are better produced at the supra-national level. The last CAP reform 2014-2020, however, shaped a complex system of payments to support agricultural income as well as to remunerate specific behaviours or specific status of farmers. This produced a poor consistency between the goals of support pursued (competitiveness of European agriculture, support of agricultural income and provision of public goods) and the instruments applied (direct payments linked to the hectares of owned land). In particular:

- The increased income variability, due to the joint effect of market price volatility and climate change trends, limits farmers' ability to plan investments. Although direct payments tend to increase investment propensity, they represent a rent when product market prices are high, but are insufficient to ensure a fair income in case of low prices.
- Instruments proved to take scarcely into account the territorial differences: the same rules apply for the mountains and the plains, urban and rural areas, different climate

areas. The measures devoted to less favoured areas, in particular for agriculture in mountain areas, showed to be ineffective and remained almost unapplied. An insufficient endowment of financial resources, together with a lack of coordination with measures activated under the second Pillar of the CAP, mostly explain their poor performance.

- The green payment, which once again does not take into account the structural diversity of farms, showed to be scarcely effective in addressing the environmental issues, translating into a small environmental effect.
- The rules followed in determining individual support do not respond to a fair distribution of the financial resources among farms. Small farms are substantially not considered inside the CAP and they are strongly discriminated with respect to large and intensive farms. Further, the policy does not take into account the total income of agricultural households, reducing the effectiveness of targeting of income support.
- The mix of income support, incentives and complex regulations make transaction costs in the sector very high. A large share of financial resources ends up in the hands of intermediate agents that successfully lobby to maintain the *status quo*.
- Compliance rules and bureaucratic commitments that are sustainable for a large and structured farm, easily becomes a complex and burdensome red tape for small farming.
- The land-ownership linked system of direct payments affects land prices reducing land access opportunities for younger farmers. This in turn reduces the effectiveness of policy fostering innovation in agriculture.

Recommendations for the reform

The future CAP should match agriculture and food-related objectives with higher level EU and country objectives in an increasing complex, rapidly changing and globalised environment.

In this context, a major issue should be the need for a better coordination between the CAP and closely related policies, such as those for food & health, the promotion of bioeconomy, the generation and diffusion of innovation, policy for environment and climate change and those addressing social issues (e.g. migration, youth condition).

Innovation will be a key topic for the future EU strategy and should be taken in higher consideration within the future CAP. This may include not only measures encouraging innovation adoption by individual farms, as well as by integrated supply chains, but also improving the organization of the Agricultural Knowledge Innovation System. Social innovation as well as technological innovation should be considered.

Entry into the sector (especially by young farmers and new players) and investments should be better connected to innovation actions within the future CAP.

A better harmonization between CAP and national policy should be pursued. A fair minimum standard of living for farmers and other rural people should be assured by fiscal and social policy at the national level. The CAP should rather consider factors affecting agricultural income that cannot be addressed neither at the individual nor at the regional or national level, such as price variability and increased environmental risks, and provide a common ground for food safety, food and nutrition security within the common European market, and trade policy.

A critical issue is to ensure coordination and critical mass to the adopted measures. In this respect, incentives should be increasingly provided to communities or collective initiatives rather than to individual farmers, switching from a “CAP of farmers” to a “CAP of territories”. This approach could increase the resilience of rural systems in providing public along with private goods, as the former are often local and their provision requires coordination among the agents from a given area. A territorial approach, involving different subjects on common projects and goals, should characterize the future policy framework. A simplified CAP should be more and more based on a contractual approach in favour of whoever is able to achieve the objectives set (certain, measurable and based on a national strategy). Market or local community-based provision of public goods should be pursued whenever feasible also with new approaches to regulation.

The conservation of the "diversity" of rural and agricultural systems should be included among the CAP goals. This would include a clearer vision of diversity among systems and within each system, in which a relevant issue is asking for diversified actions is the different role of professional market-oriented farms and other types of farm. The forms of support must be increasingly differentiated according to farm types. Professional farms are in charge of producing food and other agricultural commodities in a competitive and sustainable way; for these farms the CAP must mainly provide measures to stabilize agricultural income and employment, and encourage investment in innovation and aggregation. Conversely, the public function of alternative forms of farming strengthening rural society and protecting the environment should be recognized within the CAP and encouraged within territorial projects.

The CAP should increase its flexibility in quickly addressing the changes in the international economic and social environment. More freedom to adapt the common policy to national, regional and local conditions should be ensured along with an adaptive approach to administrative procedures, with the aim of enhancing the effectiveness of measures and reducing the red tape costs, especially in the Rural Development Policy. At the same time a stronger link to environmental impacts that are more easily measurable at the territory level (with incentives for those governments able

to reach the targets) should guarantee a fair commitment of the national, regional and local governments on sustainability agriculture

Labour issues and social objectives should be strengthened in the CAP (migrations, remote areas, entry of new farmers) and regulation in labour and land use should be improved in order to achieve better sustainability. Among the CAP goals also the maintenance of employment in remote and internal rural areas should be included.

A relevant issue not well addressed by the current CAP concerns the organization of farmers and the low bargaining power of farmers in the supply chain. Strengthening the coordination of the supply chains will need further efforts. The empowerment of farmers within the supply chain should be pursued together with an increased involvement of consumers as active players in the agri-food system. A CAP of territories may support the link between healthy food diet programs and local agri-food chain strategies, or may introduce incentives and training opportunities addressed to consumers for improving the demand for agricultural products with EU certification (e.g. PDO, PGI, organic products) and the sustainability of consumer behaviour. At the same time, chain coordination is a key driver to competitiveness on international markets; in this respect it should be prioritised, promoting consistent actions of market penetration, protection of origin and innovation.