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Hacking the CAP – Options to redesign the European Agricultural Policy

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Introduction

In 2020 the Common Agricultural Policy of the European Union has to be renewed. This raises the question which policy would be optimal for the 3rd decade of the century, seen the changes in agriculture (decline in the number of farmers, effect of ICT and other new technologies, concentration in the food chain etc.) and public issues that ask for solutions (climate change, sustainability, need for jobs and growth in rural development, food policy etc.)

The history of the CAP has shown that policy changes are often incremental. Some argue that especially in 2020 changes will be small as the term of the policy is out of sync with the budget cycle (important decisions on the CAP are not taken without a decision on the EU's financial framework) and as the CAP decision will be at the moment that the current commissioners hand over their mandate to their successors. However this should not prevent scholars from coming up with fresh ideas on how the policy could be made more effective and efficient for a resilient agriculture and food and nutrition security in a sustainable environment.

To do so, this paper takes the view that the CAP is a bundle of policy instruments to reach several policy objectives, that not necessarily are consistent or have synergies but where trade-offs exist. That means that Tinbergen's rule applies: achieving the desired values of a certain number of policy targets requires the policy maker to control an equal number of instruments.

In our analysis we re-interpret Article 33 of the Treaty of the European Union (that defines the CAP) in current policy objectives and specific targets. We then look for the most effective policy instruments for each of these targets. We discuss synergies between instruments in the execution of the policy. To test the robustness of these policy targets and instruments we stress-test them against three scenario's for the future of agriculture and the food system: High Tech, Self-Organisation and Collapse. These three scenarios have been published by the EU's Standing Committee on Agricultural Research's strategic working group AKIS (Agricultural Knowledge and Innovation Systems).

This leads to a redesigned CAP, fit for the 3rd decade of this century, as robust as possible for external scenario's on agriculture. Finally we discuss the discrepancy between the current CAP and our suggestions for the redesigned CAP.

Objectives of the CAP

The Common Agricultural Policy is based on article 33 of the Treaty of the European Union:

- The common agricultural policy shall have as its objectives:

- (a) to increase agricultural productivity by developing technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, particularly labour;
- (b) to ensure thereby a fair standard of living for the agricultural population, particularly by the increasing of the individual earnings of persons engaged in agriculture;
- (c) to stabilise markets;
- (d) to guarantee regular supplies; and
- (e) to ensure reasonable prices in supplies to consumers

This text dates from the 1958 Stresa Conference. The intervention logic that DG Agri used for the current CAP uses the following objectives:

- Maintain market stability
- Meet consumer expectation
- Enhance farm income
- Improve ag. competitiveness
- Foster innovation
- Provide public environmental goods
- Pursue climate change mitigation and adaptation
- Maintain agricultural diversity
- Promote socio economic development of rural areas

The first two are linked to Pillar 1 of the CAP, the last one to Pillar 2 and the others are translated into instruments in Pillar 1 and 2. For the period post 2020 we organised an internet consultation in the Netherlands, organised some discussions and reviewed (grey) literature. This created the following list:

- Food security
- Risk management
- Innovation
- Fair food chains
- Employment
- Income support farmers
- Liveable rural area
- Public health
- Environment (including animal welfare)
- Climate change
- Nature management

These 10 objectives can be classified to the Profit (the first 4), Planet (the last 3) and People (the other 3) aspects of a Sustainability Framework. According to Tinbergen's rule the number of policy instruments should be at least equal to the number of policy targets (objectives). For improving the efficiency and effectivity of the CAP we therefore first focus on the individual objectives. For each of them we explicitly described what has to change in European farming and then selected policy instruments that are WTO compliant, fit in the current market-oriented approach; this based on literature and expert insights.

Changes in the sector

In targeting the CAP to the agri-food sector there are developments in the farming sector and the society that might matter. Farming (production) has become more concentrated: about 20% of the farms produce 80% of food. These are larger farms that also receive a similar percentage of the CAP payments. But politicians address a wider target group: 11 mln farmers instead of less than 5 mln. These small farms have a much a structural problem and are more in need for income support than the larger ones. It raises the question if we should differentiate between the smallest and larger farms ?

A second issue is that there are also changes going on in society and the organisation of the food sector. One of the reasons is ICT that supports more integration in the food chain, but also the activities of retailers and the

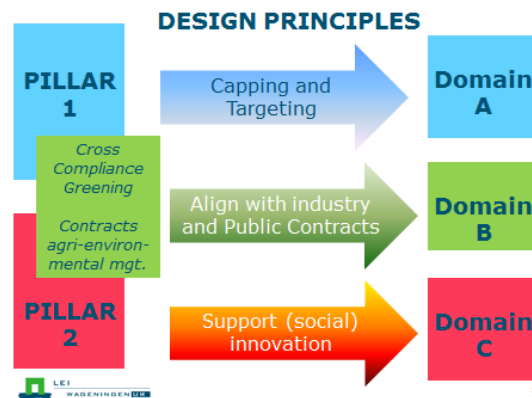
food industry in sustainable sourcing play an important role. We therefore investigated which objectives and instruments would be most relevant in three scenarios recently developed by the SCAR-AKIS (EU SCAR 2015): High Tech, Self-Organisation and Collapse.

This analysis suggested that the current CAP is not very robust in a High Tech scenario: multinationals shift (environmental) risks and low rewards to farmers who ask the CAP/tax payer for help (direct payments) and lobby against environmental policies. It would be far better if the institutional arrangements in the food chain made the consumer pay for the environmental costs and would pay the farmer a fair price. Nor is the CAP very robust for a Collapse scenario: CAP fosters scale increase, not jobs. Neither is it paying a lot of attention to climate change issues, although that could probably be integrated in the current greening and cross-compliance.

Regional diversity plays an important role in EU-28, and even more in the scenarios Self-Organisation and Collapse and for marginal areas in High Tech. A menu approach for the full CAP like in the current Pillar 2 would help if such scenarios become reality. Strengthening industry sustainability schemes by making CAP payments dependent on joining (a producer organisation with) such a scheme would make food chain responsible for sustainability and fair incomes. It also reduces administrative burden: only the schemes have to be audited. Targeting (also with contracting instead of cross-compliance and greening that are not very popular with farmers) and capping (e.g. linked to regional labour costs) could improve efficiency and free money for innovation in climate smart agriculture etc.

A new design

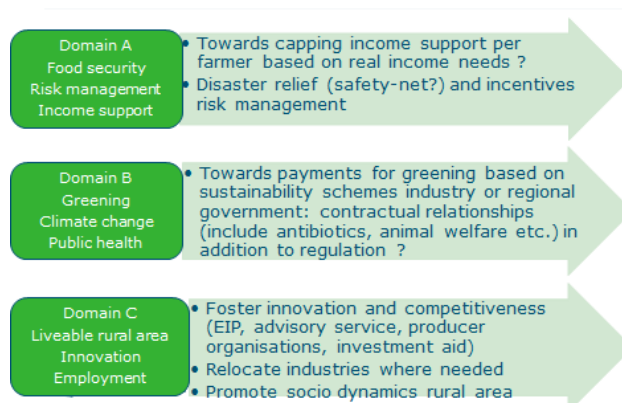
This leads us to the insight that it might be useful to distinguish three domains instead of two pillars each with its own design principle. If we move the cross-compliance and greening from pillar two and the agri-environmental contract to a specific pillar (or Domain), we would have a CAP with three domains, on profit, planet and people. This makes communication on the CAP with the public much easier. It also would make it possible to increase the efficiency of the CAP by applying a number of design principles.



Domain A, that deals with the Profit objectives of Maintain market stability, Enhance farm income and Improve agricultural competitiveness (fair chains), could be targeted to those farms that really need a (social) safety net. That would probably mean capping to a certain amount of money per person employed, in stead of a fixed amount per ha. Simulations with the FADN suggest that if income support would only be paid to increase the family farm income to the level of the regional income in other sectors, only about one third of the budget would be needed.

Domain B, that provides environmental public goods (incl. nature and animal welfare), pursues climate change adaptation and mitigation and ensures public health (reduction in antibiotics, risk of zoonosis), could be based on contracts (in addition to existing legislation like the Nitrate and Water directive). The advantage of a contractual relationship is not only that it is easier to explain to the public, but above all that contracts are handed out to farmers who are willing to perform against the lowest costs. This also

From current CAP to the future



reduces administrative burdens. An interesting option is here to contract with sustainability schemes of the food industry (that should then be auditable) or schemes from regional governments. It would provide an incentive to farmers to lobby their food processors for such a scheme and reduce incentives to shift environmental burdens to the society. It also integrates incentives from the sustainability schemes of the retail / processors with those of the government, a simplification for farmers, also in the number of audits.

In Domain C (liveable rural areas, innovation, employment) several instruments from the current Pillar 2's Rural Development Plan could find a place. It is about innovation, for competitiveness and sustainability, or to promote the social innovation in the regions (like in LEADER). In some cases the relocation of agricultural industries in Europe is still an unfinished business. In dairy production (moving to the Milk Belt from Ireland to Estonia) it is still in full swing. The veal, pigs and poultry industry is due to the old CAP still much concentrated around the ports of Western Europe, with a lot of environmental problems. Moving part of it to the East could be an interesting option. Domain C of the CAP could support such dynamics.

Discussion

This analysis is mainly to support a strategic conversation among policy makers. Even if they would agree on these objectives and directions of the CAP post 2020 (which is probably unlikely), much needs to be discussed and decided in terms of instruments and details.

Discussions until now have highlighted two issues that the analysis above is addressing only partly. One is the Jobs and Growth agenda of this Juncker Commission. Traditionally labour flows out of agriculture and the question is how agriculture could contribute to more employment. In the suggestions above we move direct payments from a per ha basis (that supports further mechanisation) to a per-person basis. Could more be done? Supporting farm take over and slowing down structural change would be one option. The risk is of course that when this really takes effect by 2022, the crisis is over and there is a lack of qualified staff in other sectors.

Another issue is the arguments for a food policy (WRR, 2015). The main problems around food (food and nutrition security, healthy food for a healthy life, climate change and environmental issues) can only be partly solved at farm level, as some of them have more to do with food consumption or asks for co-creation of solutions. In the analysis above we still mainly target agriculture, and do not develop the CAP into a Common Food Policy.

References

- EU SCAR (2015), Agricultural knowledge and innovation systems towards the future – a foresight paper, Brussels.
- WRR (2015), Towards a food policy, The Hague

