

Speech by Dr Tassos Haniotis, Director of the Economic Analysis, Perspectives and Evaluations Directorate, DG for Agriculture and Rural Development, European Commission, at the Meeting of the Chairpersons of the Committees on Rural Affairs

Challenges to the implementation of the reform of the Common Agricultural Policy

“Minister,
Vice-Chair of the EP Committee on Agriculture and Rural Development,
Distinguished Members of the European and National Parliaments,
Ladies and Gentlemen,

You have already heard from the other two institutions represented in this room about the details of the CAP reform. As the Common Agricultural Policy enters its new phase, I am glad to have the opportunity today to address issues relating to the challenges in its implementation by providing a brief background for the logic of this reform – its *why, how and for whom*. All of which are essential questions to which any policy reform has to respond to.

Let’s discuss a little bit about where we come from. The journey of agriculture in the European Union brought significant changes over time in its structure and its underlying policy is well known.

From the high support prices, border protection and export support of the past, the CAP gradually moved away from a system of price incentives stimulating *what and how much* was produced towards a system that aims to stimulate a sustainable way of *how* to produce.

This gradual and successful reform process increased market orientation while providing income support to farmers, improved the integration of environmental requirements and reinforced support for rural development as an integrated policy for the development of rural areas across the EU.

By gradually removing restrictions on farmers, the CAP has helped them to better respond to market signals, integrate European agriculture within expanding global markets (as the improving situation of agricultural trade balance shows very clearly) and dramatically improve the efficiency of policy support.

So why changing again the policy settings, one would ask?

Agriculture and rural areas are expected to be confronted with a set of challenges, some unique in nature, some totally unforeseen some years ago. This required the EU to make a strategic choice for the long-term future of its agricultural policy.

World food demand is expected to increase by 60% by 2050 (FAO), driven by a rising world population, changes in dietary pattern mainly driven by income growth and urbanisation, a strong increase in the demand for fibre, biomass, and biomaterial, and rising societal demands for quality, value and diversity of food produced sustainably in line with our environmental, social, safety, health requirements and linked to local traditions.

Against this background, commodity markets have displayed increased volatility, resulting in increased calls to mitigate the negative effects of such movements on both agricultural producers and food consumers, especially the most vulnerable ones. Farmers had to face unfavourable developments in their production costs over the last few years, further lowering the attractiveness of the agricultural sector as an employment and working environment and potentially undermining new entry into the sector, especially since productivity gains slowed down in developed countries over the last two decades.

Furthermore, these gains were achieved partly by putting serious strains on natural resources and on the environment, which has already been facing significant deterioration over the last decades. The statistics are known – 45% of European soils face problems of soil quality, valuable eco-systems have been damaged or have even disappeared and around 40% of agricultural land is vulnerable to nitrate pollution, threatening water resources, while environmental challenges are further exacerbated by the consequences of climate change.

These developments are putting at risk the long-term production potential of our agricultural sector. In addition, rural areas have increasingly suffered from the impact of a series of detrimental demographic, economic and societal developments such as depopulation or reallocation of businesses. This is not a uniform phenomenon but it is a phenomenon that characterises certain regions of the Union.

Against this background, the Commission had to scrutinise the existing policy framework and make it fit to address the several economic, environmental and territorial challenges European agriculture is expected to face in the future.

In this analysis, we identified three main objectives:

- to promote food security by helping the sector to address the challenges stemming from volatile markets, market uncertainties and the functioning of the food chain;
- to ensure the long-term sustainability and potential of EU agriculture by putting the sustainable management of natural resources and climate action at the centre of our action;
- to contribute to the socio-economic development of rural areas by safeguarding the structural diversity throughout the EU.

These objectives called for the setting up of the new policy framework characterised by a change in policy paradigm that recognised the joint delivery of both private and public goods by the agricultural sector as the core of policy orientation, and the need for flexibility of the future CAP and the means to achieve it. To put it more simply, this is not just and only a policy about the 2-3% of the overall economy of the European Union. It is more and more a policy about the 50% of land, its use and changes in its use, and it is about the 100% of consumers of food products.

What are the key elements of this new CAP?

Firstly, in order to promote agriculture's competitiveness, we continue with the trend set by past reforms to enhance the market orientation of the CAP by removing all existing restrictions to production, with the sugar quotas abolished by 2017; existing market management tools will also be streamlined and simplified.

These changes will allow us to advance even further in the policy shift towards an enhanced safety net and crisis management mechanism able to mitigate the effects of potential crises and market disruptions. New policy instruments concerning the functioning of the food chain are introduced in order to ensure that farmers get their fair share of the derived value added by reinforcing the framework for the producer organisations, their associations and the inter-branch organisations, including financial support for the creation of new producer organisations as well as the promotion of short supply chains.

To bridge the gap between agricultural science and practice, agricultural research and innovation are strengthened with new instruments. And what is often ignored is that the new programme of the European Union in the field of agricultural research doubles funds for research. And this is unique among all other areas of research.

The new European Innovation Partnership on Agricultural Productivity and Sustainability has been set up to facilitate the transfer of relevant research results into practice, ensure systematic feedback on

research needs and encourage the sharing of experience and good practice among farmers and all practitioners in the sector.

The improvement of the sustainability of the agricultural sector is the core of the new orientation of the CAP, with the new element in the CAP design – the “green direct payment” – requiring that all farmers, above specified area thresholds, have to respect three obligatory practices that are beneficial for the environment and climate change in order to receive 30% of the direct payment budget. Let me remind you the three broad objectives of these policy measures, i.e. addressing soil erosion, emissions and biodiversity. This “green direct payment” complements a simplified and more targeted cross-compliance that represents the compulsory basic layer of environmental requirements and obligations to be met in order to receive CAP funding.

A “greener Rural Development” foresees priorities on “promoting resource efficiency” and “restoring and enhancing eco-systems” and enables targeted and voluntary agri-environmental-climate measures that are designed according to regional needs and specificities, while the new rural development programmes will have to allocate at least 30% of the EU financial contribution to measures with positive environmental and climate change impacts.

These policy instruments are accompanied by related training measures and other support from the Farm Advisory System, insights from the Innovation Partnership and a boost to agricultural research and knowledge transfer. This will help farmers to find appropriate solutions for their specific situations.

Finally, to promote greater effectiveness in the CAP, we tried to ensure a more equitable distribution and adopt a strategic approach of spending, targeting only those who are actively engaged in agricultural activities.

In the face of an ageing farming population, a concerted effort to target the young generation resulted in this reform in provisions that would grant to young farmers in all Member States the opportunity to get additional payment in the first pillar of the CAP.

Coupled support is a further instrument at the disposal of Member States, whereby they can secure the future of potentially vulnerable sectors, giving Member States the possibility to target their own specific needs to address economic, social and/or environmental objectives foreseen in limited specific circumstances only so as not to undermine the overall competitiveness of European agriculture.

Finally and more importantly, effectiveness will benefit from a more balanced, transparent and fairer distribution of direct payments among countries and among farmers. This reform reduces the disparities of the level of direct payments both *between* and *within* Member States, with external and internal convergence. This shift is crucial to a more credible and legitimate support system, since granting payments based on uneven historical references of more than a decade ago can no longer be justified and it was thus essential to find a more adequate distribution key for direct payments.

In order to do so, the move away from the historic payments system towards a more “land-based” payments across the EU in which farmers get a comparable and converging per hectare payment took into consideration the fact that change does not come over night and that Member States and regions need to be able to take into account their local circumstances. The agreement thus includes a transition period and the possibility to operate the scheme at a regional level and thereby minimises the potential disturbances for farming business.

Finally, a strategic approach to spending will also contribute to a more effective CAP. This will be ensured by an improved integration with other EU policies, a strategic approach to rural development programming (in terms of clear choice and definition of adequate priorities, alignment of priorities and instruments) and an improved monitoring and evaluation of the policy instruments.

So with that, I briefly described the logic of what we propose and what in broad terms was agreed. I left open the point of conclusions expecting first to hear what the previous speakers would mention. And I think it is important to keep in mind that, in our view, there will be four main challenges for the implementation of the reform. Three of them are directly related to the CAP orientation and one is more related to the overall orientation of other policies as well.

First of all, challenges related to the criteria for convergence and redistribution. *Among* Member States, this is fixed. *Within* the Member States, however, there is an enormous scope of flexibility for the Member States to identify which regions exactly they are going to best target; whether or not additional support to some sectors is needed in the form of couple support; whether or not some regions need support in the form of more money allocated to them; to which extent the small farmers scheme is going to be used. We need to keep in mind that we are talking in an environment of a fixed budget. Therefore, the more some money goes to certain regions or sectors, the less money will be available to other ones. This reality acts as an incentive to clarify very well the needs and thus the requirements to make this adjustment. So the criteria that will be used in determining this convergence and redistribution will be very crucial in the Member States implementing this policy.

The second challenge clearly is in the area of greening. And believe me (because I was heavily involved in the preparation of this proposal and we analysed various different measures) we did it not because we didn't see the need of Member States to have flexibility. What we proposed had a logic putting more emphasis on simplicity. The agreement took into account this effect, but it also took into account the needs of the Member States. How exactly will greening be implemented? We will have to take into account the fact that we have three layers with different levels of responsibility aiming at the same target. Cross-compliance, greening in Pillar I and agri-environmental measures in Pillar II aim at the same thing, i.e. improved joint delivery of public and private goods from agricultural land. And what has to be kept in mind is that this objective has to be the same throughout the implementation process. And there is a certain balance that has to be found between the incentives that are going to be given in the concrete implementation of the policy.

Third and a very important element that is often forgotten – bridging the gap between the practical questions on the ground that the farmers ask us and the answers we give. The Farm Advisory System would use existing and new information coming from research linked to the Innovation Partnership and would provide feedback from all practitioners of agriculture and those that produce this knowledge to provide concrete solutions to the farmers' questions.

And the last point concerns the link of the CAP with other policies. Coherence with other EU funds is extremely important and is a requirement for the new orientation of EU funds and for the CAP. The same regional challenges are addressed in a different way if there is complementarity in the various instruments used, and they are addressed in a completely different way if every one of these instruments is considered as something separate. We should not forget that all our instruments are a part of one policy. The target is to achieve the same objectives. And the complementarity is possible, and the flexibility given to Member States aims at addressing exactly this aim.”