



The CAP 2013-2020

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Outline

- Global Challenges
- Key Europe 2020 Objectives
- Future CAP Objectives and Changes
- CAP Financing
- The New Paradigm: Production of Public Goods

Nine Global Challenges

- ❑ **Population growth**
- ❑ **Growing demand for crop** products (cereals, plant fat, proteins), and feeding stuff
- ❑ **Growing demand for energy**, including bio-energy
- ❑ **Globalization and urbanization**: production moves to the most competitive regions.
- ❑ **Climate change**: agriculture contributes to emissions, but also to carbon sequestration; it suffers or benefits from changing climates
- ❑ **Increasing market volatility** due to: yield fluctuations, food market segmentation, input and output price volatility
- ❑ Growing public interest in **agricultural public**
- ❑ **Social problems** such as aging of farmers, farm successions, competition for land
- ❑ **Uncertainties**: timing and application of **innovations**

Key Europe 2020 Objectives

- 3 priorities for sustainable growth and jobs
 - Growth based on knowledge
 - An inclusive high employment society
 - Green growth: a competitive and sustainable economy

- Agriculture has a substantial role to play to reach the Europe 2020 objectives

Future CAP Objectives

A sustainable balance of:

- Food security
 - A comprehensive agriculture and food industry
 - Based on knowledge, innovation and education
 - Efficient
- Environmental security
 - Production of public goods
 - Protection of the environment and nature
 - Mitigating and adapting to climate change
- Social security
 - Income levels comparable to average incomes
 - Farm successions

Expected changes in the CAP post 2013

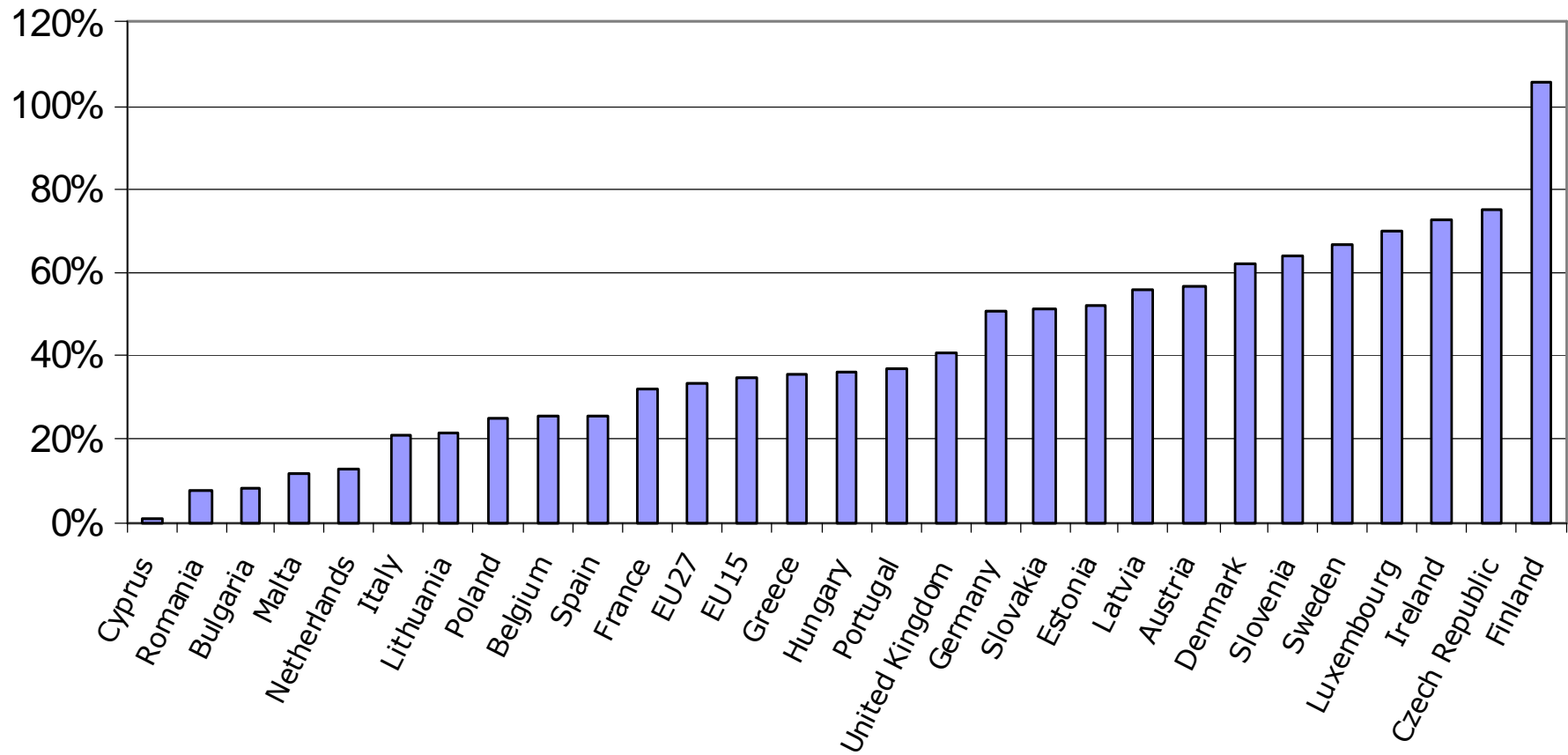
- ❑ Abolition (definite) of set aside
- ❑ Abolition of dairy quotas, and a new European dairy strategy
- ❑ Phasing out of export subsidies
- ❑ A new safety net against market volatility
- ❑ Total decoupling with redistribution of support
- ❑ Regional and hybrid models of direct payment
- ❑ A stronger rural development policy with more modulation
- ❑ Strengthening of cross-compliance
- ❑ Closer link between level of payments and service provisions
- ❑ Strengthening of Axis 2 and Leader-Type programmes
- ❑ Support of producer organizations and food chain
- ❑ Simplification
- ❑ Reassessment of biofuel policies
- ❑ R&D better targeted on agriculture



Single Payment System (Pillar 1)

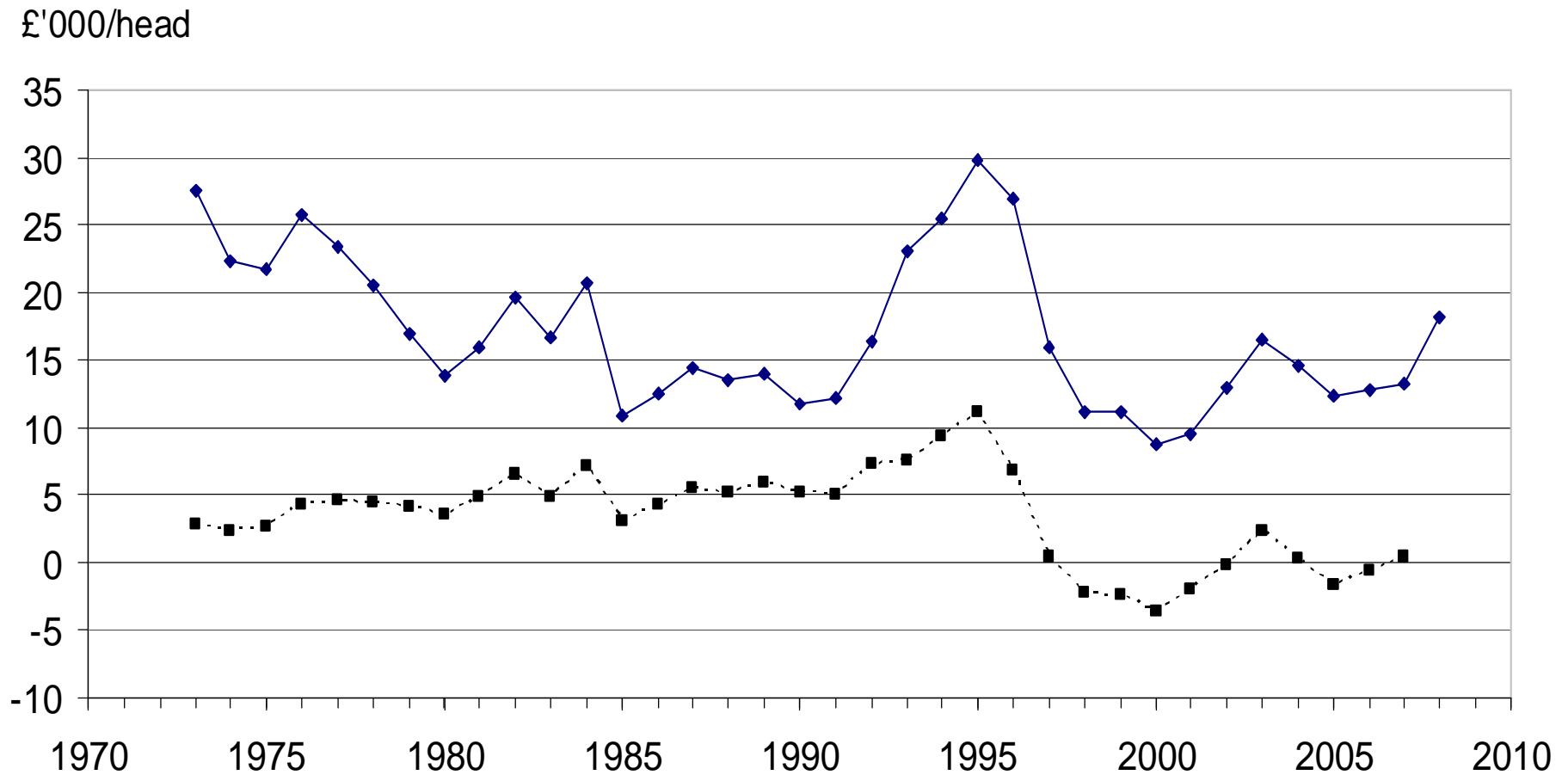
Figure 3 Dependence on Single Payment, EU27, 2008e

Source: Eurostat Economic Accounts of Agriculture: Subsidies/Factor Incomes



Dependence of farming on SPS, UK aggregate level data

Total Income from Farming per FTE with and without support payments, (in real £2008)



Source: Defra Statistics —◆— TIFF/head with supports —■— (TIFF/head without supports)

Figure 4 Dependence on Single Payments; English Farm Types, 2007/08

Single Payment as percent of Farm Business Income

Source: Defra, Farm Business Survey accounts, 2007/8

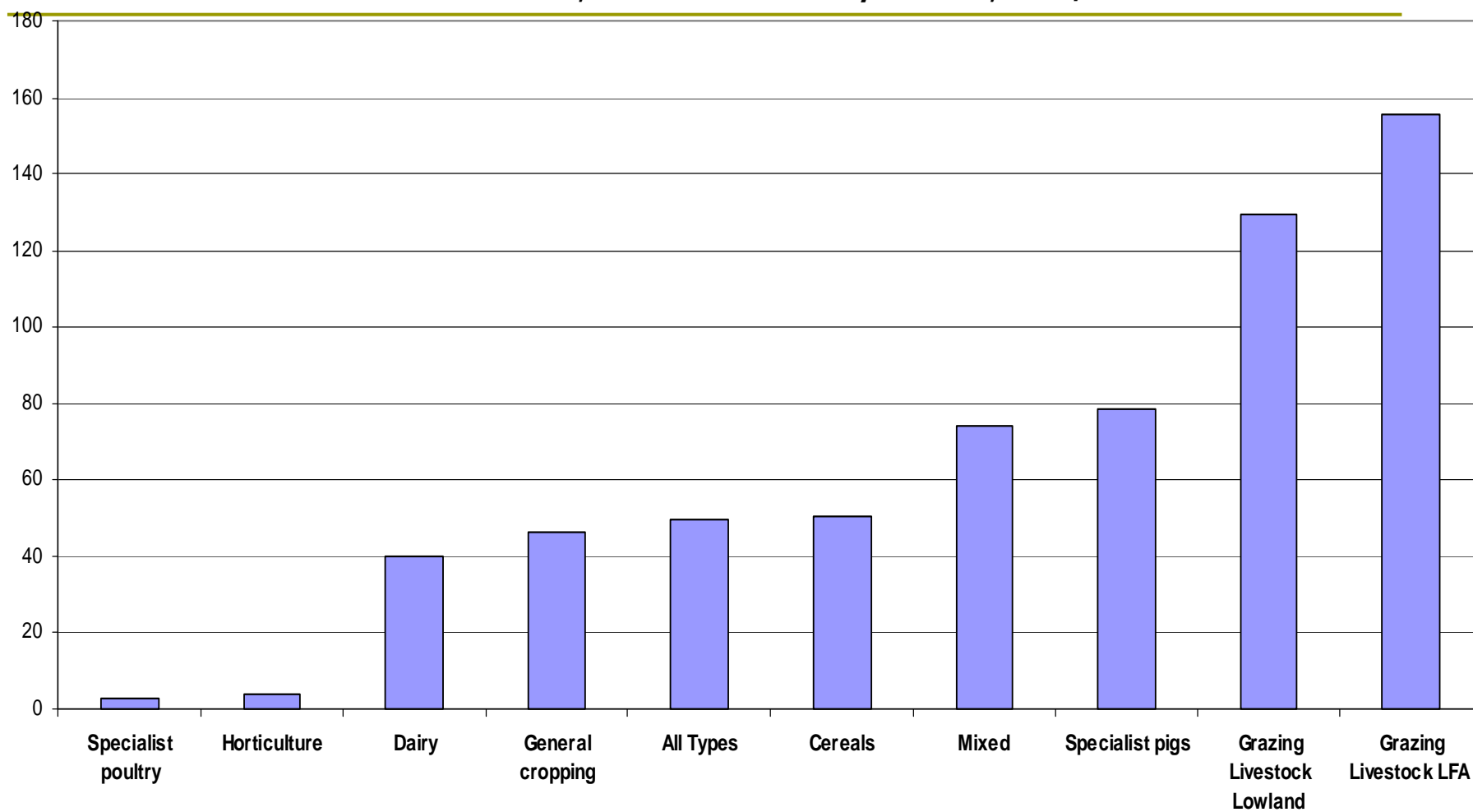


Figure 1: Average direct payment per MS (in € per hectare)

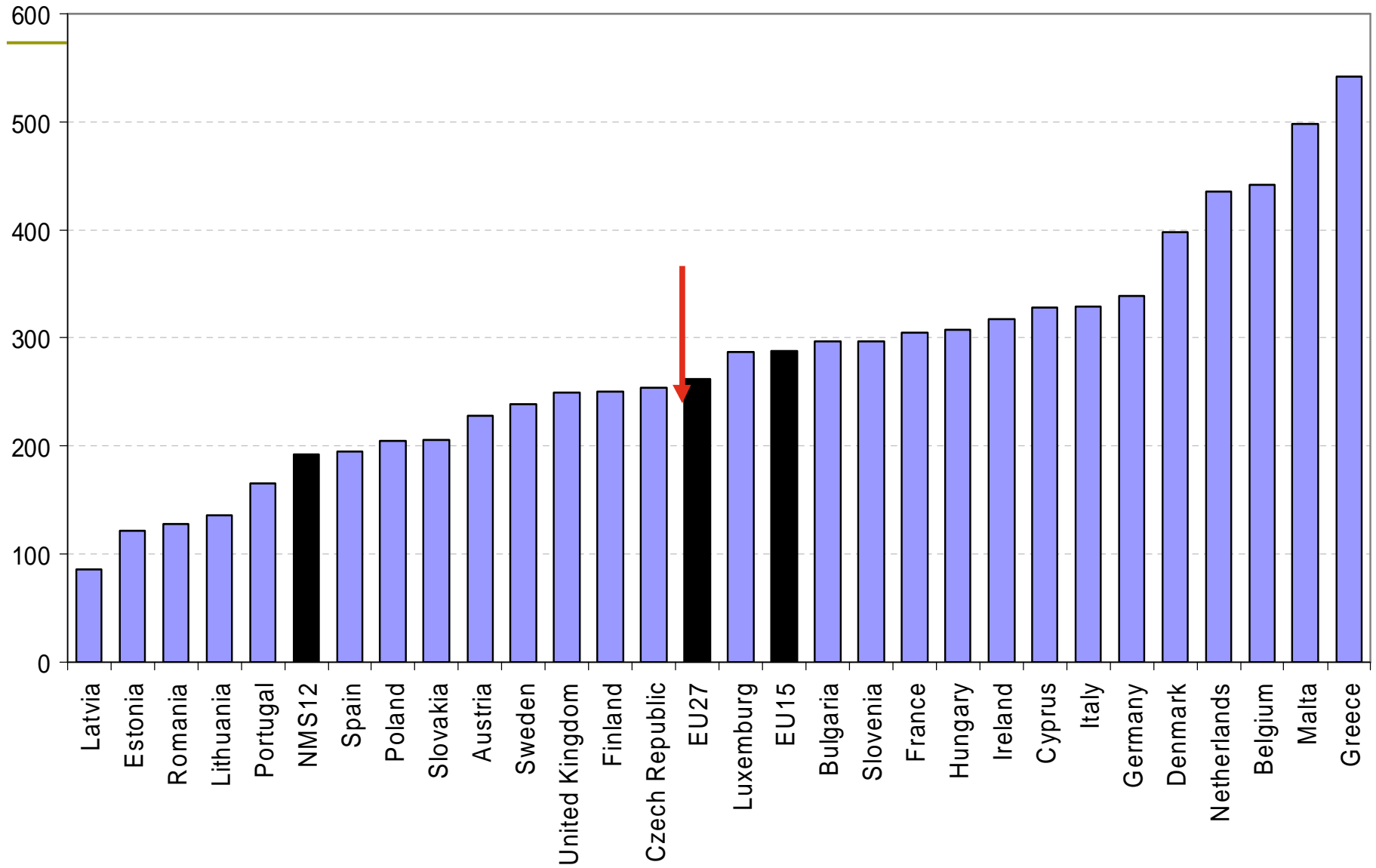
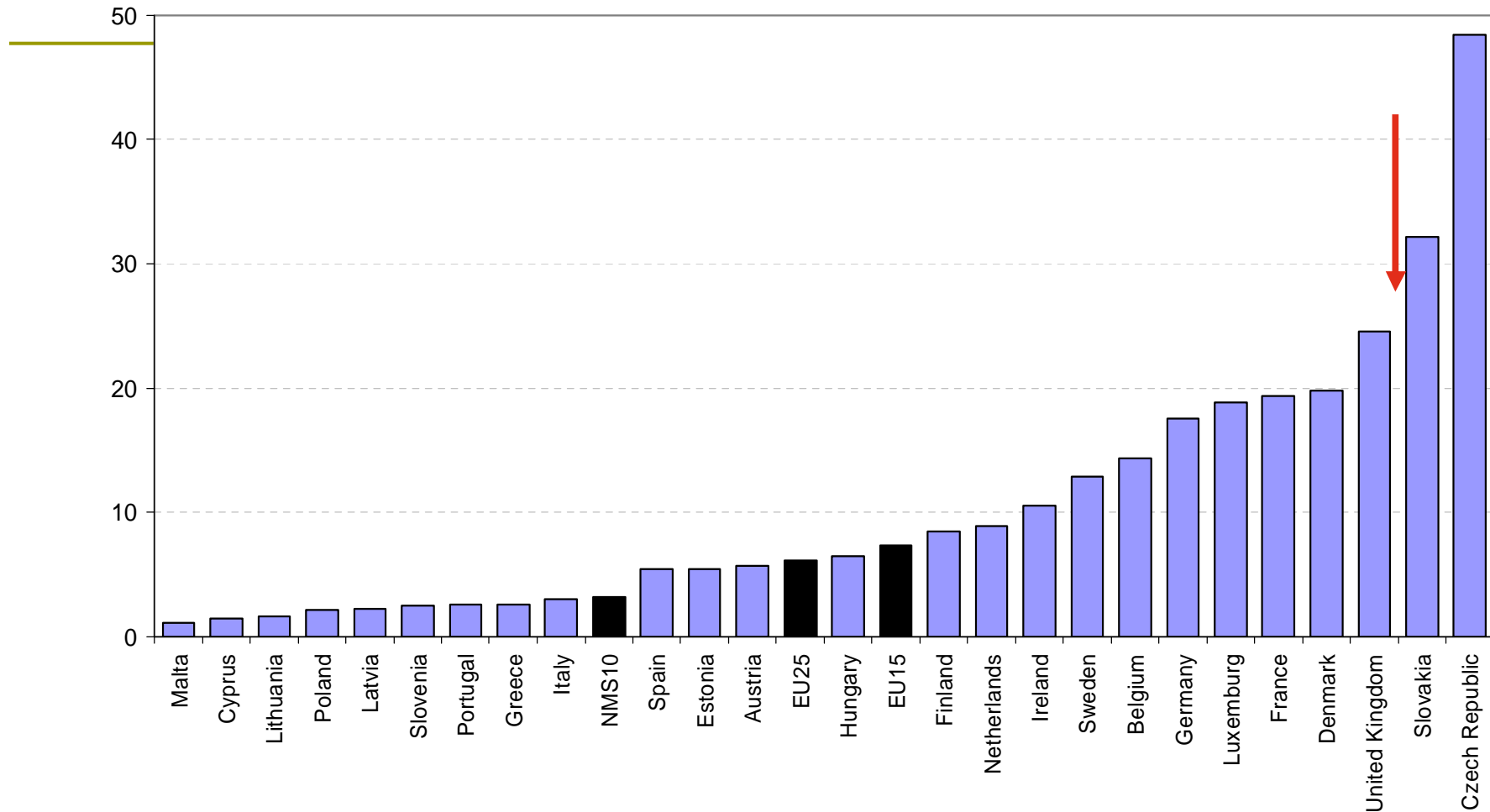


Figure 2: Average direct payment per MS (in 000 € per beneficiary)



Source: DG AGRI calculations (see Annex C, note 1 for details).

The EU budget review

- Bigger challenges for the next 50 years than faced by the CAP and environmental policy for the last 50 years, ... and for a still enlarging EU.
- Currently €53b p.a. (until 2013)
- CAP share of EU budget down from peak of over 70% to 35% by 2013
 - 1% EU public expenditure
 - 0.4% of EU GDP
- Is this enough? Will it really be reduced?
 - For the sector stewarding 80% land area
 - With 40% population
 - 5% of the work force
 - 2% of GDP
 - Prospect for further diminishing share of EU spending and even reduction in real terms
- ***Land management & environmental interests, must jointly make a case for the required budget***

New Motivation for a New CAP

- ❑ Mechanized agriculture helped increase labour productivity (20X since 1850 for the economy as a whole)
- ❑ Sustainable agriculture must do more to increase resource productivity and...
- ❑ Contribute to reduce emissions of CH₄ (methane), CO₂ (carbon oxide) and N₂O (nitrous oxide)
- ❑ Need to shift support to ecosystem production using market and fiscal instruments:
 - Including agriculture/forestry into emission trading (ETS)
 - Creating new markets for eco-system production and trade
 - Imposing eco-taxes on unsustainable practices
 - Compensating farmers for related income losses

What are the Public Goods?

□ **Resource Protection**

- **Water** – quality, quantity, filtration, storage, flood Protⁿ
- **Soil** – structure and fertility, C sequestration
- **Air** –reducing GHGs (NH₃, N₂O, CH₄ and CO₂)

□ **Biodiversity**, habitats, species and genetic diversity

□ **Landscape** and cultural heritage

□ **Questions to address**

- The value and costs of delivery
- Who should pay?
- At what level, EU, National, Local?
- Recent studies: RISE Task Force, Commission DG Agri, LUPG study £1.98b costs, paid £0.7b

Public Goods in Farming

- ❑ Like all economic activities, farming involves as by-product unpaid benefits and costs impacting on society, i.e. positive and negative *externalities* (e.g., carbon sequestration and pollution respectively)
- ❑ Land managers tend to privilege production of food and fiber that pays compared to public goods that do not pay
- ❑ Farming is therefore beset by so-called *market failures*: it under-provides public goods such as eco-system services, and over-provides public “bads” (it is a net emitter of GHG, in particular CH₄ and N₂O)
- ❑ Market failures can be corrected via public policy and market remedies
- ❑ Estimated values of ecosystem services are huge
 - annual global flows of terrestrial ecosystem services exceed \$11tr in 1994 (twice as big as global GDP)
 - At current pace, the world’s global footprint is 30% above global bio-capacity (WWF)
 - Loss of terrestrial biodiversity involves annual global welfare losses of \$50bn (TEEB)

Instruments to deliver Public Goods

- Public policies and payments for eco-system production, better farming practices or for foregoing damaging behavior
- Creation of environmental markets:
 - **Cap and Trade**: setting environmental limits with those overshooting (or undershooting) them selling (or buying) credits
 - **Floor and trade**: imposing a minimum proportion (floor) of ecologically managed land
 - **Offsets**: regulating that developers offset environmental degradation by purchasing equivalent eco-services from land managers
 - **Contracts for services** reducing pollutants (e.g. water companies paying farmers to preserve water quality lowering water treatment costs)
- Action at EU level: environment is of common interest, does not stop at border, plus competitiveness and solidarity factors

A developing approach – five elements for the CAP

- Strong, common policy with resources to match
 - agricultural productivity and competitiveness
 - a basic decoupled payment scheme
 - tiered agri-environment schemes
 - ways of supporting marginal areas
 - measures promoting wider rural development

Ways of supporting marginal areas?

- ❑ Should we move from negative LFA and Areas of Natural Handicap, to the more positive 'High Environmental Value' HEV?
- ❑ Defining HEV - lines on maps, farming characteristics, or both?
- ❑ The problem of the payment basis
 - Income forgone from farming is insufficient
 - Income forgone from moving out of farming
- ❑ Ensuring it does not distort commodity markets

Measures promoting wider rural development

- Economic diversification essential for industry characterised by part-time farming.
- Rural services: e.g. broadband
- Rural infrastructure
- Partnership /collaborative approaches
LEADER
- Particular importance in the new Member States

Concluding remarks

- ❑ We have to continue to promote the need for a strong common CAP to non-farming opinion formers. Is there a better slogan than FES?
- ❑ European decision making is not fast nor smooth!
- ❑ CAP reform becoming more complex with its greening
- ❑ Budgetary pressures unprecedented (nationalism)
- ❑ Undersupply of environmental services due to market failures
- ❑ Creation of environmental services and markets is best way to reduce undersupply without impinging on the public purse, but difficult and takes time
- ❑ Until then, CAP budget cuts, albeit inevitable, can be limited via an alliance between stakeholders in agriculture and in the environment



Thank you for your attention!

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