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#CAP

FOR A RENEWED CAP IN SUPPORT OF SUSTAINABLE AGRICULTURE

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Summary

Over time, the Common Agricultural Policy (CAP) has developed into a simple farmer income support system based predominantly on cultivated areas ("first pillar"), together with a limited budget to fund rural development ("second pillar"). The attempt to introduce greening conditions on aid, decided in 2013, has failed on the whole. The current proposals under discussion indicate a future CAP which is less common, in which the second pillar budgets are significantly reduced, and from which any form of ambitious environmental policy is absent.

The European added value for such a policy is questionable, while the high level of dependence of farming income on European subsidies is becoming the only compelling argument in the defence of the CAP's budgets. To restore legitimacy to the CAP, clear objectives must be defined in favour of a European agricultural model. The CAP must provide greater support to public goods (protection of natural capital, water management, carbon storage, biodiversity preservation, etc.). Aid must be conditioned on actual results (and no longer on niggling obligations of means) and the allocation of funding to EU Member States must be based on objective criteria in a departure from the upholding of national budgetary returns.

INTRODUCTION

Negotiations on the next European multiannual financial framework for the 2021-2027 period provide a key chance to recalibrate the Common Agricultural Policy (CAP). In view of the bold choices put forward by the European Commission in other fields, such as conditioning structural funds on compliance with the rule of law, the resources allocated to research and ideas for new own resources, the proposal expected for the CAP runs the risk of being a missed opportunity.

The EU-27 no longer seem to agree on what the CAP's objectives should be. A meeting of ministers in Annecy in 2008 demonstrated an early lack of shared vision for the future of European agriculture. Ten years on, these differences only seem to have become greater. The very idea of a common policy is less popular, the perception that farmers would benefit from renationalising the CAP appeals to the profession in several Member States, further fuelled by anti-European sentiment in rural areas despite the generosity of agricultural budgets.

During the previous negotiations for these budgets in 2010, this lack of shared vision led the Commission to propose marginal adjustments in relation to the existing situation, itself the result of many compromises and subsequent instruments which were not always consistent. Ultimately, the regulations adopted at the end of 2013 consolidated a large number of types of exemptions, modularity and national adaptations, meaning that the agricultural policy became less common.

Today, Brexit is depriving the European budget of a significant portion of its resources. Several heads of state and government are insisting on the need to finance new policies, such as managing migration or security. For the 2021-27 financial framework, the CAP budget may be required to contribute, as the Commission proposes.[1] Attempts to safeguard the "budgetary returns" to which contributing States are attached may well take precedence over a common ambition for agriculture.

While it is the Commission's role to submit proposals in the European general interest, it does not have a **consensus on which it can rely in favour of an ambitious reform that would give the CAP new momentum**. The Commission states the commitments made on a European level to the Sustainable Development Goals, including the 2015 Paris Agreement on Climate Change, which EU nations have undertaken to uphold. It also states the commitment to the "Europe 2020 strategy for smart, sustainable and inclusive growth" and the "Juncker priorities". These very general frameworks do not provide compelling markers with which an agricultural strategy may be steered. The Commission launched a major public consultation which ended in May 2017, the results of which support its proposals, but the level of representation of which remains uncertain. The "Cork 2.0 Declaration" of 2016, intended to reflect civil society's aspirations for rural development, supports the proposals for this section of the CAP but its legitimacy is not particularly binding for EU Member States and the European Parliament.

For these reasons, the negotiations on the future CAP are based on general objectives that are relatively consensual, at the expense of a high level of generality: promoting a "climate-smart and resilient" farming industry, stepping up environmental protection and contributing to the

1. The European Commission published its proposal for the multiannual financial framework on 2 May 2018 (A Modern Budget for a Union that Protects, Empowers and Defends, The Multiannual Financial Framework for 2021-2027, COM(2018)321). This proposal endorses the notion of a drop in net contributions (overall roughly €13 billion) due to Brexit and the need to fund new priorities, in particular financing, communications networks, border control, programmes for young people, innovation, security and defence. The Commission proposes an increase in own resources, a greater contribution from Member States and also savings made in some sectors such as the CAP, of around 5% in real terms, but with a sharp drop in funding for rural development (Matthews 2018).

EU's climate and environmental goals; consolidating the social and economic fabric of rural areas by favouring job creation and attracting new farmers, if the general themes of the European Commission's communication which launched the discussions on the future CAP are carried over[2]. In this communication, **the Commission proposes a new CAP based on national plans** defined by EU Member States, which would be subject to its approval. One of the major justifications for this is the need to simplify the CAP, a point on which there is consensus. Yet these proposals may further extend the application of the principle of subsidiarity without the holding of necessary structural debate on the priorities to be given to the CAP.

1 . AN APPRAISAL OF A REFORMED CAP WHICH LACKS COHERENCE

Many observations have already highlighted the shortcomings of the current CAP, mainly that it has become a system that distributes poorly differentiated levels of aid on the basis of agricultural land. The advantages for the European taxpayer who funds it are still a concern, while the analysis of continued problems has already been broadly presented.[3]

After more than twenty-five years of far-reaching reforms, **a large number of the CAP's failings have been resolved.** This is broadly the case for the structural imbalances between supply and demand which were a feature of the 1980s and resulted in massive non-recoverable budgetary costs (storage, export subsidies or surplus disposal). Now, aid is aimed at farmers more directly. The CAP no longer sends adverse pricing signals which were an incentive to produce great quantities, and not always of good quality, when the markets were crowded. It no longer has the negative effects on producers in third countries who suffered from having to compete with subsidised exports.

The current CAP is governed by regulations adopted at the end of 2013 and by delegated acts of 2014. It is mainly organised in a two-pillar system with the first pillar involving purely EU direct payments and the second pillar co-financed by EU Member States or their regions. The first pillar is intended to organise the markets – which it no longer does – and to support agricultural income. The main means of achieving this is through direct aid per hectare, without any connection considered with the quantities produced since the 2003 reform and the "decoupling" of aid from quantities produced.

1.1 Direct payments and their inconsistencies

In the first pillar, public intervention on agricultural markets has declined significantly since 1992, when major reforms were launched (1992, 1998, 2003) and resulted in the end of most guaranteed prices and of the public procurement that supported them. Attempts to regulate markets through quotas (sugar, milk) were shelved in 2015 and 2017. Safety nets and crisis prevention measures are now in place, mainly through aids for storage and, where necessary, public procurement.

Direct income support now accounts for most of the first pillar's budget. In 2013, some of these aids were conditional on conducting more environmentally-friendly practices, separating

2. "The future of food and farming", Communication of the Commission dated 29 November 2017 to the European Parliament, the Council, the Committee of the Regions and the European Economic and Social Committee, COM(2017) 713 final.

3. Previous work of the Jacques Delors Institute (Bureau and Mahé, 2008; Mahé, 2012) is still up-to-date on this point, also discussed in SER (2008). The shortcomings of the 2013 "reform" were highlighted in Bureau and Mahé (2015), Mahé and Bureau (2016) and Matthews (2016; 2017a) and in several reports of the European Court of Auditors.

aid into "basic payments" and "green payments". EU Member States now have great scope for national adaptation. They can modulate the allocation criteria of the "green payment", grant coupled aid to targeted production types, assist young farmers and regions with natural limitations, make redistributive payments, for example to promote the smallest farms, cap payments, regionalise aid and define the notion of an "active" farmer eligible for support, etc. By this mechanism, policies can be adjusted to the local conditions. In practice, **it also allows States in which pressure groups are highly influential to derogate from common ambitions extensively, in particular in terms of environmental protection,** where the devil is often in the detail of national adaptations of Community legislation.

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> THE PRICE OF LAND IN SOME REGIONS WITH POOR SOILS IS MORE A RESULT OF AID THAN OF PRODUCTION PROFITABILITY

Today, entire sectors of European agriculture have income mostly from direct payments. Curiously, in some sectors, these aids are even greater than before-tax current income (see figures in Matthews, 2017b). Yet the extent of the **"leakage" of aid to unintentional recipients** remains controversial. Land price trends in EU Member States which have gradually become entitled to CAP aids since joining the EU suggest that aids, which are capitalised in land and property, are predominantly helping landowners, who may not be in the farming sector. Farmers do not benefit from a part of available aid through asset leakage (purchases from retired farmers, balancing payments to joint heirs). Even in the oldest Member States, the price of land in some regions with poor soils is more a result of aid than of production profitability. These payments therefore become entry barriers for young farmers. Measures to assist young farmers to set up their business attempt to address the effects … of other CAP measures.

Another example of CAP inconsistencies is that direct payments reduce the incentive to diversify by cutting the income risk. Farmers have an aversion to risk and do not 'put all their eggs in one basket', diversifying their crop mix and even their sources of incomes. The certain income from direct payments has an effect on this aversion and indirectly encourages farmers to specialise, even though the proportion remains debated. This specialisation increases exposure to harvest and price risks and results in a greater use of phytosanitary products than with long and diversified crop rotations. The creation of a "green payment" as an incentive to crop diversification therefore addresses a problem created mostly by the policy implemented. Income stabilisation instruments and insurances are also subsidised to curb the effects of this specialisation on risk exposure, to which direct payments contribute. There are many examples of measures taken to tackle a problem at least partly caused by a previous measure.

1.2 The failure of greening

Another inconsistency is that the **CAP has proved unable to counter the decline of a natural capital which is valuable to producers**, as is demonstrated by the case of pollinators or auxiliary insects in crops. The decline in biodiversity is particularly serious in rural areas in which it is gaining pace, even though this depends significantly on the type of agriculture. In intensive farming with large plots and simplified rotations and in which the use of phytosanitary products is considerable, the microorganisms in the soil, flora and fauna are rare and with little diversity. The counts of common birds and butterflies attest to a dramatic fall in the last thirty years.[4] Insects which were once in abundance have disappeared from rivers and the entire aquatic food chain is suffering. The loss of habitats, the standardisation of land, the use of chemicals and the efficacy of harvesting equipment which leave no residues are the cause.

In addition to biodiversity, agriculture is also contributing to water pollution. It is the almost exclusive source of ammonia emissions in the air, which are a precursor of microparticles which are particularly hazardous to health. Agriculture is also a big producer of the greenhouse gases nitrous oxide and methane. It is now possible to assess the financial cost of this damage to

4. See the 50% drop in butterfly numbers in twenty years, or the decline in common bird populations in agricultural areas measured by the European Environment Agency and by the Paris Natural History Museum, or the data centralised by the BirdLife association.

the natural capital and of such pollution. Estimates of the massive cost of nitrogen pollution in the water (nitrates) and air (ammonia) reachseveral hundred billion Euros on an EU level (Sutton, 2011). There are also considerable economic costs associated with the loss of productive ecosystem services such as pollination and water damage which is no longer regulated by our seriously declining wetlands.

Decoupled direct payments are less of an incentive to the use of large quantities of chemical inputs than in the past. However, the manifold measures, from the agri-environmental payments created by the 1992 reform up to the **greening attempts of 2013 have only had very little positive impact on the environment and the biodiversity of farming systems.**[5] The key measure of conditioning part of direct payments (so-called "green" payments) on dedicating land to ecological focus areas, with a view to curbing the decline of biodiversity, has had almost no real effect as the initial proposal has been stripped of its substance (ECA, 2017; Pe'er et al 2017). Emptied of its content by the European Parliament and the EU Council and set at minimum levels in many Member States, greening has not really been implemented. In total, only a tiny fraction of European agricultural land has been converted to more environmentally-friendly practices.[6]

Lastly, the CAP's social redistribution objective is far from being attained, as it contributes to increasing "natural" income inequality. Direct payments per hectare are in practice not very redistributive. CAP aids are focused on a small section of recipients who are not the most in difficulty: 130,000 of the 7.2 million European farms receiving assistance obtain €13.8 billion, i.e. one third of the total aid budget.

1.3 Diverse rural development subsidies and obligations of means that are difficult to manage

The other component of the CAP is rural development, which is often called the "second pillar". While there is a common strategic framework, the policy entails funding a regional or national rural development programme subject to the Commission's approval. Intended to recompense the multifunctional aspects of farming, it has become heterogenous over time. Agri-environmental programmes play an important role in some EU Member States.[7] In others, particularly in Central Europe, the modernisation of farms (including through a highly production-focused approach), investment and infrastructure appear to be more of a priority. Funding also considers underprivileged regions, innovation, rural networks, etc. The 2013 Regulation has added new functions to this second pillar, such as risk management, climate control and support for innovation, which further broadens the scope and heightens the risk of spreading assistance too thinly.

Assistance under the second pillar is focused on specific objectives, with some aid granted directly to public goods or positive externalities. This aid is more justifiably legitimate than the basic payments on the surface of the first pillar. There is, however, a high level of opposition to the second pillar and its budget was cut during the last reform. Several EU Member States, such as Poland, transferred part of the budget to the first pillar on a very substantial scale. The Commission's proposals on the multiyear financial framework published in May 2018 suggest that this second pillar may well be subject to the most drastic budget cuts (Matthews, 2018).

5. See Ecorys et al. (2016).

6. See the highly negative assessment of CAP greening by the European Court of Auditors (ECA, 2017). An empirical illustration of the low impact of the adopted measures and the conditioning of entitlements to the "green" payment on the creation of "ecological focus areas" in which biodiversity is protected. While this measure works well in Switzerland, in the EU, amendments to the initial legislation obtained by MEPs resulted in a Community Regulation in which an EU Member State can consider an industrial soy crop as a biodiversity reserve. This simple example demonstrates the disappointment felt by those hoping for a real greening of the agricultural policy.

7. See Ecorys et al. (2016)

The second pillar is criticised for its complex management methods. Such criticism sometimes has a hidden agenda. Farming pressure groups generally prefer a systematic payment granted with minimum conditions, such as the basic payment, to targeted contracts with multiyear objectives and checks. However, the "Agri-environment-climate Measures" are often judged harshly by the farmers directly affected by them, as they are restrictive and unattractive due to the administrative workload they entail.

2 . WHICH AGRICULTURAL MODEL IS PREFERABLE FOR EUROPE TODAY?

With the indiscriminate payment flows of the first pillar, of which a proportion ultimately does not reach farmers and the distributive effects raise concerns, and the dispersion of the second pillar with its very heterogenous objectives, it is difficult to ascertain the real direction of the current CAP. Indeed, **without reconsidering the European added value of each measure and a refocusing of the CAP, this confusion surrounding its objectives will continue**. The CAP must be redefined, taking into account the global context and new concerns.

2.1 A CAP which supports farmers exposed to global competition

On an international scale, the pressure on European subsidies through the World Trade Organisation (WTO) has somewhat abated. These subsidies meet the conditions of the Agreement on Agriculture of the Uruguay Round: with the decoupling of payments launched in 2003, the EU complies easily with the ceilings stated in this agreement, even if all agricultural subsidies are potentially vulnerable by virtue of another more general agreement on subsidies.[8] Today, the most serious threat seems to be that hanging over the WTO, called into question by the USA in particular, while the Dispute Settlement Body of this international organisation is an impartial and effective regulator of trade conflicts which has benefited the EU. Alongside a decline in multilateral aspects, States wishing to open up to dynamic markets signed bilateral and regional agreements around fifteen years ago. The EU, which has traditionally promoted the multilateral approach, has had to follow to prevent its exporters from being excluded from key markets. Agreements are sometimes favourable for European farmers, such as the free trade agreement with Japan signed in 2017. In many other cases, however, these agreements are more favourable to European industrial exporters than to agricultural producers. Sectors such as beef production, protected by high customs duties but subject to increasing tariff concessions, are particularly exposed.[9]

> "EUROPEAN CITIZENS HAVE SPECIFIC EXPECTATIONS

The CAP must take into account and contribute to the promotion of European agriculture in global trade. This involves supporting training, innovation and the dissemination of these innovations. However, the **CAP must also take into consideration the fact that European citizens have specific expectations, which result in particular in more restrictive production methods** (genetic engineering, social standards). Going beyond the necessary strict controls on imports, a subsidy system can be justified in that European producers are asked to make

8. The European Union's Aggregate Measure of Support which records subsidies which cause distortions on global markets is around €6 billion, for a ceiling of €72 billion pre-Brexit, which puts the notion of a "WTO constraint" on the CAP well into perspective (see Bureau, 2017).

9. One of the reasons for this is that the supply of European beef, mostly made up of co-products of dairy herds, is highly inelastic. This means that every tariff concession or quota without customs duties, like those granted to Argentina, the USA, Canada, etc. compete with the suckler cow sector (i.e. specialised "meat" livestock).

specific efforts. Such subsidies would have to support what citizens are requesting, namely healthy products and environmental protection.

2.2 A CAP which helps to balance markets, industries and regions

The question of more effective crisis management tools and that of managing income and cashflow volatility, or more generally everyday risk management, are important points in debates on the CAP post-2020.

EU Member States do not agree on the definition of a "crisis", in particular on the price levels which require public intervention. Some even believe that such crises are a means, common and well accepted in other sectors, of promoting the most efficient producers and increasing the sector's productivity. One response to this would be that, due to the specific features of agriculture in terms of ownership of capital (which does not allow for a spread of risks among shareholders as in other sectors), a farm that is perfectly viable "on average" could find itself going bankrupt due to a simple business upheaval on a relatively short cycle, a phenomenon which does not come under Schumpeter's "creative destruction". Public intervention is therefore legitimate.

Another point which was already raised in the previous reform, is that of **sharing added value within chains**. Upstream (input suppliers) and to a greater extent downstream (purchasing bodies of major groups) players are highly concentrated in a number of European States, and the farming players in the chain endure their prices. This point has been highlighted in particular by MEPs, and the Commission has launched several initiatives on "unfair" practices within chains, including a draft Directive.

Furthermore, EU Member States and regions, relayed by the Commission on this issue, are insisting on a CAP which preserves the regional balance and which does not result in greater economic disparities between regions. It is **in the public interest that agriculture maintains its core business in certain regions**, useful to a critical mass of the population required for transportation and public services. Moreover, in some regions, agriculture remains the foundation for downstream economic activity, which is important in the local GDP and for jobs.

2.3 A CAP which contributes to health and the environment

Environmental protection is another major issue. There is a clash between public opinion which is increasingly concerned about the effects of phytosanitary products on health and on wildlife, together with environmental organisations which are warning of the long-term costs of the deterioration of our natural capital, and agricultural organisations which see constraints in the environmental regulations which are not binding to their foreign competitors.

Other issues have recently emerged, such as that of animals' well-being, supported by highly active pressure groups. Their significant financial resources, including donations from a very wide public, and their extreme positions are a particular cause for concern for the farming profession, which finds itself being accused and challenged.

The issues of nutrition and food-related health problems have also become a concern for some governments. Important questions such as the **contribution of livestock farming to the growing resistance of bacteria to antibiotics and air pollution are starting to be taken seriously, and rightly so.** Lastly, faced with the inability of certain States to keep their promises in terms of greenhouse gas emissions, there is greater pressure for the CAP to contribute to cutting agricultural emissions, failing which objectives which will be difficult to attain will be imposed on other sectors such as energy.

These objectives in view of a European model for sustainable agriculture call for a CAP with reviewed instruments and management methods.

3 . A CAP WITH RENEWED ECONOMIC INSTRUMENTS

3.1 Coordination and a comprehensive approach to absorb shocks

Exposure to sudden and long price setbacks or health crises is a problem for farmers, many of whom were accustomed to public intervention which guaranteed prices and market opportunities under the old CAP model. The current CAP has few effective crisis management instruments: private storage aides, public intervention buying which is not appropriate for limited and short-term shocks. Due to the Community decision-making process, decisions are made late and often prevent inexpensive early action. The "crisis reserve" has not been used, even when it should have been.[10] By putting an end to guaranteed prices and ceasing to control supply as was the case for milk and sugar, market management is now limited to customs protections and "safety nets" (mainly crisis intervention via private storage subsidies and potentially public buying). Yet the provisions of the 2013 legislation have proved to be somewhat ineffective in a crisis, one example being the milk crisis since 2014**.** The current tools are unsatisfactory and the competing interests of EU Member States in a crisis do not allow for a form of coordination which could keep prolonged price collapses in check.

Proposals have been submitted so that aid may be more swiftly conditioned on a collective discipline with regard to volumes in this type of situation (EMB, 2015; Trouvé et al, 2016). Coordination on a target volume is difficult on a technical and organisational level, as demonstrated by Matthews and Soldi (2016). The obstacles are even greater for productions which are less easy to adjust swiftly than milk (adjustable in terms of concentrated feed inputs), such as crop productions or those with long cycles. However, **in such situations, a coordinated supply is necessary to avoid the effects of emergency aid being cancelled out by price cuts.** This coordination may entail incentive-based mechanisms used to modulate production according to marginal costs (tendering systems, licence exchange systems, etc.). This coordination must be implemented on a Community level to avoid the "prisoner's dilemma" of capitalising on supply controls in other countries to produce more, as has already been the case in the 2016 milk crisis. [11]

BOX 1 . The milk crisis

An in-depth analysis of the milk crisis (Mahé and Bureau, 2016) highlights the shortcomings of the tools implemented. Excessively optimistic anticipations on the development of international demand resulted in an overproduction of milk in the EU, made worse by the Russian embargo. The high prices of 2013 fell dramatically in 2014. Under political pressure from producers and EU Member States, significant budgets were released to assist farmers, outside of the appropriate institutional framework which was not implemented (the "crisis reserve"). Yet these subsidies granted during a period of low prices were largely wasted, as they encouraged the continuation of production at a time when an additional quantity had a considerable depressive effect on prices. Due to a lack of Community coordination, the production reduction measures in some EU Member States allowed others to increase their production. It took more than a year for supply control measures to counter the crisis. Not only were several hundred million Euros wasted in the process, but also the EU is left with enormous milk powder stocks bought to support prices, of which a collapse may well depress the markets for years. Ultimately, it is likely that these stocks will end up being destroyed or sold off at a third of

10. The crisis reserve is intended to allow rapid market intervention in the event of a "crisis". There is not always consensus on this concept, a fact which hinders a swift response. If the crisis reserve is not used, its budget is ultimately paid to farmers in the form of direct payments, which is why there is pressure from the profession to avoid using this reserve. It was not used for the serious milk crisis between 2014 and 2016, despite the worsening of the situation by the Russian embargo.

11. It must be considered that any restriction to European production with a view to countering price decreases would "benefit" third countries, as the markets are interconnected. Even if it seems to be the only effective means of keeping price collapses in check, a coordination of volumes must remain an exceptional early crisis management tool, failing which it may result in losing market shares which would be difficult to recover.

the purchase price on an animal feed market, at a very high cost for the taxpayer, while early coordination would have proven less expensive and much more effective.

Institutional reforms must avoid intervention decisions being made under short-term media and political pressure. Conversely, intervention must be based on pre-announced objective criteria.[12] **Farmers must also be made to understand that the State will not always ultimately intervene**, breaking with decades of traditions in crises. These expectations do not encourage farmers to adopt cautious strategies, in particular in terms of more flexible cost structures and production diversification, and discourage them from adopting mutual solutions and precautionary measures.

3.2 Promoting more adaptable and resistant production systems

Price stabilisation is a vain objective, as proven by the failures of stabilisation funds to counter the traditional CAP shortcomings, with its mountains of surpluses. The stabilisation of agricultural income, by farm or by crop or livestock, is a preferable goal. The tools required to achieve this, in terms of insurance and mutual funds, were implemented in the 2013 Regulations and access to them was made easier and more flexible by the so-called Omnibus Regulation, which entered into force in January 2018.[13]

Counter-cyclical tools (such as aids which are triggered only when the market is destabilised), ad hoc measures in periods of low prices, and to a lesser extent insurance tools and even decoupled aid (as seen above) have adverse effects. By reducing risk, they act as an incentive for specialisation in a limited number of crops. The fiscal tools to smooth economic fluctuations are a preferable solution to be encouraged. However, these tools have also had a negative impact in some Member States, resulting in ineffective fiscal optimisation behaviour and overinvestment in equipment which give rise to incompressible maintenance costs in the event of a price shock.

Insurance payments and aids are not the only means of reducing agricultural income volatility. The recent crises have shown the worth of systems in which production cost structures can absorb shocks. In this way, farms which use little intermediate consumption purchased outside the farm, and of which the production costs are not burdened by considerable equipment depreciation costs or high financial expenses were more able to resist the variations of milk prices, high in 2013 but very low for the next two years. Conversely, price decreases significantly impacted income in models with a high level of inputs purchased, as the cost structure was incompressible. These same farms were the most vocal in requesting public intervention to smooth the effects of dramatic agricultural product price variations. Another lesson of the recent events is the resilience provided by diversifying production, which remains an effective risk management system.[14]

12. See the proposals of Mahé and Bureau (2016) which include entrusting the triggering of market measures to an independent authority, and conditioning eligibility to certain CAP programmes and benefits on participation in supply control coordination in the event of overproduction.
13. The agricultural part of the Omnibus Regulation was adopted on 11 December 2017 by the Council, following an agreement with the European Parliament on 12 October. These provisions entered into force on 1 January 2018 (EU 2393/2017, OJ L 350). Significant changes to the legislative framework concern the scope of action of producer organisations; the reinforcement of agricultural insurance and income stabilisation instruments; the rules governing green payments and aid to young farmers and the definition of an "active farmer" which in practice leaves Member States with great flexibility.
14. Producers are exposed to various types of risks which interact through covariances. Thus, income volatility is reduced if prices and yields are significantly negatively correlated; if the prices of the different crops are not strongly correlated; if the yields of the different crops are not strongly correlated or negatively correlated; if the prices of inputs are correlated with the price of productions, etc. This explains that, due to these different types of correlations, diversified production remains a conventional yet effective strategy to reduce income variability.

As we have seen, there is little incentive for diversified and resilient systems in the current CAP, despite the timid step forward made by diversification obligations connected to the green payment, contradicted by other incentives to simplify rotations. **Managing income volatility must focus more on the diversification of business, the constitution of reserves in prosperous periods, precautionary measures and the absorption of price fluctuations over a wide range of inputs**, through production systems which use fewer inputs purchased outside the farm. This type of self-coverage does not require risk management to be delegated, at a cost, to third parties. More economical and more autonomous techniques and integrated and diversified production systems mean that risk management policies and the necessary shift in the CAP to more sustainable agriculture are coherent.

In a more ambitious way, the refocusing of the CAP's budgets on public goods payments could play a key role in risk management. What is included in this general term is now well defined.[15] The list includes landscapes, agricultural biodiversity, water quality and management, healthy land, carbon storage, fire and flood resilience, etc. **Access to contracts to provide public goods could be a source of certain income in a business portfolio.** For this to be successful, these contracts must be accessible and adaptable, and each farmer should be able to select a level of contracts according to their risk aversion. A farmer could for example select the share of fixed income and the incidental portion related to production. It has been proven that combining a risk-free income and a high-risk income (higher in expectancy) in a proportion based on risk aversion is a simple but effective strategy to mitigate risks while optimising an average yield.[16]

3.3 Restoring the balance of contractual relations through a heightened competition policy

There are many small-scale farmers without market power, while upstream input suppliers are in an oligopolistic position and this is even more the case downstream with the clustering of purchasing bodies. Many stories support the concept of threats and pressure that the downstream of the chain places on the agricultural sector, even when contractual undertakings have been made. While the issue of risk exposure and farmers' difficulty to retain the benefits of their efforts and productivity gains are real problems, we must not forget that the presence of oligopolies in the chain conditions the impact of public policies. The aid distributed does not always ultimately reach the producer, but rather a stakeholder with the capacity to reflect it in the prices imposed on producers.

Provisions exist to encourage joint action on the part of farmers in order to give them greater bargaining power in the industry. The 2013 Regulations and the Omnibus Regulation which entered into application in 2018 have strengthened producers organisations in this way, with the option of producers organisations to negotiate prices. However, the strengthening of producers' bargaining power must not eclipse the underlying problem: competition authorities' clear inability to sanction non-competitive practices downstream and abuses of dominant positions. The power of distribution groups, the lack of transparency with regard to their practices, their political platforms and the *de facto* alliance with public authorities concerned with low consumer prices, seem to have made regulation mechanisms ineffective. Allowing a local distributor to negotiate with a local farmer via the intermediary of a major purchasing body introduces strong asymmetry. Pressure from the European Parliament and the Council favours derogations to competition rules for agricultural producer organisations. They do not suffi-

15. What should be considered a public good was discussed in depth by European Network for Rural Development. A task force of civil society members defined a set of public goods which deserve to be protected by public intervention. See TWG3(2010), some conclusions of which were used in the "Cork 2.0 Declaration" on rural development in September 2016.

16. An optimal strategy to balance risky high yields and certain yet low yields and to adjust the risk-free asset proportion of the portfolio to a farmer's own risk aversion is a conventional financial calculation. Tobin (1958) demonstrates that a complex management of a high-risk portfolio may be reduced to a simple balancing in the proportion of the certain assets owned.

ciently explore the **need to strengthen competition policy in the distribution industry.** This would restore a balance to relations without having to create an additional oligopolistic link in the chain which would ultimately increase prices for the consumer and decrease demand in sectors in which it is highly elastic (fresh fruit and vegetables, organic produce).

3.4 Research and innovation: a role for public R&D

One of the paradoxes of the CAP is that for several decades the largest farming organisations have justified aid as a need to modernise agriculture and make it sufficiently competitive that it no longer requires aid. This timescale does, however, seem to be constantly postponed. Would the huge budgets allocated to supporting the markets in the 1970s and 1980s then to poorly differentiated direct payments to support income not have had a more positive impact on added value and farming income if they had been dedicated to research and training?[17]

The latest reforms of the CAP introduced innovation, knowledge dissemination and farmer support policies. The budgets are meagre and EU Member States dedicated between 2% and 6% of the second pillar budget to these aspects, even when national budgets are greater. The European Innovation Partnership for Agricultural Productivity and Sustainability (EIP-AGRI) helps local players to work together on an innovative project, in a flexible and decentralised manner, to foster the sharing and dissemination of best practices which provide solutions to farmers' questions. The beginnings of this partnership are promising, even though the effects of dissemination on a pan-European (and even pan-regional) level and its linkage with the research framework of the European Horizon 2020 programme must be improved.

> “ THERE HAS BEEN LITTLE RESEARCH COMPLETED ON FARM PRODUCTIONS

Public policies must promote research areas which are not covered by the large private R&D budgets of major international companies as a priority. Private R&D focuses on a narrow range of crops, varieties, breeds and production methods, the most likely to provide high levels of profitability on large-scale production. This means that there has been little research completed on farm productions, on varieties of less economic importance. The small public budgets allocated to protein crops such as the field pea or the fava bean, are on a scale that cannot compete with the huge private budgets dedicated to maize for example. Similarly, more autonomous techniques (grazing management, mixed cropping, biological controls) benefit from low R&D and extension budgets. Private and cooperative advisory structures, often connected to input suppliers (in France and Germany in particular) often advocate the use of inputs from outside the farm. The innovative actions supported by the EIP-AGRI are a basis from which more ambitious goals may be pursued, focused more on innovation in relation to controlled biological and ecological cycles. Research into real solutions likely to be implemented by direct users, the cornerstone of the EIP-AGRI, should not hide the **need for bold public research downstream, for more resource-efficient techniques to improve varieties largely ignored by private budgets** and productions likely to promote innovation specific to public goods (Détang-Dessendre et al, 2018).

3.5 Promoting regional economic development

The recent reforms have given Member States the capacity to distribute CAP aid more effectively across their regions. The 2013 shift to "entitlements to single payments" per hectare in countries such as France, which had opted for individual historical references, has provided more assistance to rather extensive livestock farming areas. The opportunity to support areas with natural constraints, such as the option of re-coupling aid for specific productions, and the possible zoning of the basic payment level, also allows Member States to adjust the geographical distribution of public aid.

Yet once again, aid which does not directly target the production of a public good has an am-

17. See the viewpoint of Blandford et al (2011).

biguous impact. It gives rise to public aid optimisation strategies, which are not always aligned with sound land development or promising innovation for economic development. In addition, it has been noted that in French regions with poor soil, which benefited greatly from the redeployment of aid after 2013, aid results in rent-seeking behaviour, more than it encourages research into innovative solutions and integration in key markets.

Direct payments must promote precise objectives and focus more on innovation and public goods for them to be most beneficial to regions in which agriculture is the most economically vulnerable. This approach is consistent with the redeployment of the most indiscriminate aid (the basic payment) to aids for innovation, collective organisation (the EIP-AGRI can provide a basis) and an environmental agreement that we will discuss later in the paper.

In terms of distribution, a clause should be introduced at the very centre of Community legislation, according to which **no individual may receive payments from the public budget in excess of what is considered to be the minimum wage in their country, unless these payments correspond expressly to remuneration of a positive net supply of public goods which gives rise to specific costs.** The proposals to cap individual aid but which deduct from this ceiling the remuneration of family labour (virtual) and salaried labour (real) depart from this principle.

4 . REFOCUSING THE CAP ON PUBLIC GOODS OBJECTIVES AND A RESULT-ORIENTED APPROACH

4.1 Simplification: subsidiarity as a double-edged sword

The complex nature of the CAP and the need to streamline it are among the rare points on which EU Member States and the current Commissioner for Agriculture, Phil Hogan, agree. The latter has placed simplification at the centre of the future CAP in the Commission's proposals.[18] For farmers, simplification means "less paperwork", for administrations it means "less resources needed for inspection and checks". Yet for economists, simplifying the CAP would entail ensuring that the layering of programmes over time stops giving inconsistent incentives and increases cost effectiveness in terms of social benefits. This is why a simplification of the CAP must be considered together with its objectives such as public goods.

The New Delivery Mechanism proposed by the Commission as a means of simplifying the CAP provides for national agricultural strategic plans that the European bodies would approve (or reject) on the basis of performance criteria. Strategies would be drafted by Member States but the general objectives would be set on a European level. The European Commission insists that there is no question of having an approach as unwieldy and an administrative burden as heavy as the process in place for the second pillar.

The highly divergent strategies implemented by States in their national rural development plans demonstrate, however, that this approach has its risks. While some States and regions use the rural development budget predominantly for environmental actions, others – in particular Central European States – use them to mechanise and intensify their agriculture. Such divergence applied to the first pillar may result in an agricultural policy which is hardly common anymore. If priorities are too different, there are legitimate fears of distortions of competition. The policy financed in this way would no longer have a convincing European added value.

18. The Commission's communication insists on this point, as does the reaction of the European Parliament's Committee on Agriculture (the Dorfmann report).

In addition, if the Commission issues its approval based on *ex ante* national plans, some EU Member States may be tempted to reduce somewhat the environmental, or even health and social requirements of their agricultural policy. One innovation of the CAP implemented in 2013 was that 30% of direct payment budgets were earmarked for mandatory greening in all Member States (even though this greening was disappointing in practice). It is doubtful that the national strategies implemented would reach even this percentage in the future CAP. Yet**, without a strong environmental dimension, the policy financed in this way would no longer be very legitimate to taxpayers.** If the threshold of 30% of budgets allocated to direct payments is not secured for this type of mechanism, the future CAP will result in a regression in the production of public goods. The Commission's rhetoric on the need for a more sustainable CAP would no longer have any real content.

4.2 Rethinking agri-environmental policies

While the many demands for simplification have been strongly reflected by the EU-27 and the Commission, **there is good reason to fear that the action of various pressure groups to simplify the CAP would result in the relaxing of environmental restrictions**, and in programmes so non-specific that they maintain or generate deadweight loss and shortcomings in checks on the use of distributed budgets. This is not a sound approach. A simplification of the CAP must entail an extensive review of incoherent measures with contradicting effects. It may also adopt a performance-based payment approach rather than an obligation of means, provided that monitoring tools are developed which are currently technically possible.

Economic theory provides clear principles, such as taxing negative externalities and subsidising the positive externalities of agricultural activity. The profession's aversion to effective and relatively simple taxes, which would be on phytosanitary products or nitrogen fertilizers which give rise to pollution and significant social costs, has led to the implementation of complicated instruments (the recent certificates for the economic use of phytosanitary products in France are an example of this). Moreover, these are often in breach of the "polluter pays" principle and add to the high level of complexity and to the use of circumvention schemes. **Genuine environmental tax applied to agriculture could be simple and give the "right incentives"**, without adding to farmers' burdens (for example if the products of an incentive tax are paid as rewards for positive externalities).

It is not easy for farmers to commit to a result that depends on factors which they cannot sometimes control. Yet over the last decade conditioning agri-environmental measures on performance has been a subject of experiment in several European programmes, and has led to promising results.[19] Furthermore, **environmental bonus/penalty systems** can be based on relatively simple criteria (green points, index to reflect crop diversity, etc.) which can now be observed directly. This is further facilitated by the graphic land registry for agricultural parcels and satellite monitoring methods which make checks less time-consuming. For example, it is now possible to observe rotations on a parcel of land with remote systems, which was not the case in 2013.

The performance-oriented approach suggested by the Commission could therefore result in a radically different CAP. To achieve this, the European framework must set real public good production objectives, dedicating significant budget shares to them. Support must actually be dependent on measurable results, and not on a mere inspection of national action plans. This approach must be far-reaching and encompass new agricultural budgeting rules.

19. See Allen et al (2014), CLA (2016). Payments based on performance are not appropriate in all situations but feedback generally shows that their principle may be extended (see http://ec.europa.eu/environment/nature/rbaps/index_en.htm). Their use has long been halted by the need for payments to cover only extra costs and income loss imposed by the European Commission (see Bureau 2017).

4.3 Refocusing first pillar aid on a contractual approach to support sustainable agriculture

The concept of "public money for public goods" must be at the very core of the future CAP and its budgets. **A significant share of the budget must be dedicated to contracts which clearly have the vocation of producing public goods.** The New Delivery Mechanism is not inconsistent with this development, provided that the Community framework sets general objectives and a joint tool such as an individual contract for the production of public goods. Member States could define the specific terms according to local conditions. However, to reach these objectives and avoid the adverse effects of current direct payments, this contract must be granted personally to a farmer (or a non-agricultural land owner) for a long period set in advance. This is the pre-condition which would limit exploitation of such aid and leaks to other recipients which has a negative impact on the current CAP's efficacy.[20] **These contracts must be commensurate with the effort made for public goods and payments must be based on performance. The European framework must set a minimum share of the first pillar's budget that EU Member States must allocate to this contract.**

The option of receiving this payment, the specifications of which would be flexible and may be regionalised, would be a means of adjusting incentives for established farmers to remain and new farmers to settle on a local level. The geographic adjustment of these payments could lead to zoning to identify goods of remarkable natural value. These goods could become a benchmark for the granting of green points, which would be the contract's general administration method on a national or regional scale.[21] The current income dependence on direct payments is not an insurmountable obstacle to converting current first pillar aid into this type of contract. Access to this payment would be facilitated for many regions in which agriculture is vulnerable and income dependent on subsidies as the production systems are already close to the virtuous practices targeted by the contract.

Special care should be taken to develop measurement tools and observation methods to assess the real impact of the supported contracts, whether defined in national or regional plans. An effective simplification of the system would imply payments being set according to quantitative commitments in terms of surface area which are renewed over time (land use, animal density, parcel structure, abundance and diversity of flora and fauna species, preservation of water resources, carbon storage).[22] This approach would also be extended to broader areas to reward environmentally-friendly networks if local institutions are in place to decentralise payments on an individual level, in particular via farmers collectives as is already the case in the Netherlands.

A contractual payment of this type acting as the primary foundation of the CAP, with a large share of the budget that Member States would be obliged to allocate, would encourage the production of public goods while improving the coherence and efficacy of the current system.[23] The approaches which would create positive externalities and reduce the dependence on chemical inputs would be more attractive than they are currently. This implies an approach

20. The link with the individual and not with the land resulting from the contractual nature of the payment does not prevent all forms of exploitation but does limit the scope for it. On this matter, see the previous work by the Jacques Delors Institute (Bureau and Mahé, 2008; Mahé, 2012).
21. We are referring here to the various works by Louis-Pascal Mahé for the Jacques Delors Institute on these points (Bureau and Mahé, 2008; Mahé 2012).
22. From this standpoint, the EU can benefit from advanced satellite recognition tools developed in European programmes (Copernicus), and from the rapid innovation building on public data disclosure (e.g. start up companies on massive data and spatialized information for precision agriculture).
23. Cooper et al (2009) and, recently, Hart et al (2018) described the conditions for a "results-oriented CAP" in terms of environmental objectives in a particularly insightful study on the concrete application of what may be the "New Delivery Mechanism" of the Communication dated November 2017. Cao et al (2010) also proposed indicators and conducted budget simulations.

on a micro-economic level consistent with more "macro" structures provided by the European Natura 2000 programme, the habitats directives and multiple national zoning initiatives on ecological focus areas. In addition, **paying farmers in accordance with their efforts to produce public goods is consistent with the idea that, on a European scale, the budget granted to States must be conditioned on measurable results**.

4.4 Basing all aid on public goods production

The concept of a shift towards a financing model based on results on a micro-economic level must be consistent with the setting of national or regional budgets on a macro-economic level. The proposal of basing the CAP budget on objective criteria rather than political negotiations is not new.[24] Yet it now enjoys greater legitimacy with the notion of a more à la carte CAP as outlined in the Commission's Communication.

The proposal of EU Member States receiving a budget bonus for the achievement of environmental objectives was addressed by the Commission in its explanations of what form the New Delivery Mechanism may take in practice. It would be necessary to take this approach much further, not stopping at a marginal bonus. All aid should be based on the production of public goods.

> "RESTORING A HIGH LEVEL OF RATIONALITY TO A POLICY WHICH IS NO LONGER RATIONAL

In practice, **each Member State's CAP funding should be granted according to a set of criteria which allow for the actual creation of public goods to be monitored.** Work has already laid the foundations to come up with preferable criteria for the definition of objectives, strategic plans and monitoring indicators which can be used when drafting national plans for the provision of public goods (Cao et al, 2010; Hart et al, 2018). They provide the option of basing the CAP budget allocation on a group of indicators. Each EU Member State would therefore be allocated a budget on the basis of criteria such as Utilised Agricultural Land, jobs in farming, land in deprived areas. Other criteria include permanent grassland, land covered under a Natura 2000 area, land used for organic agriculture. **Ideally, dynamic indicators should be part of the calculation, such as biodiversity trends, water quality and the reduction of greenhouse gas emissions in agriculture.**

Compared to the existing, budget transfers would naturally be highly dependent on the actual stipulations of the selected calculations. Under all circumstances, there would be a strong incentive to improve the provision of public goods where this is lacking. Adjustments are likely to give rise to a solution which is collectively acceptable[25], while restoring a high level of rationality to a policy which is no longer rational.

CONCLUSION

There is no longer any real common project for European agriculture. In addition to the different soil and climate conditions and structures in an enlarged EU, divergence is above all found

24. This was proposed by Zahrnt (2009) and Cooper et al (2011) and is a legitimate idea: cohesion funds such as the ERDF and the ESF are based largely on population and prosperity criteria (per capita GDP, unemployment rate, etc.), i.e. on socio-economic criteria which can be revised over time.

25. An adjustment concerning per capita GDP, purchasing power parities and the weighting of the various indicators is highly influent on the results of what each Member State would receive, as demonstrated by Cao et al (2010). Their simulations show, for example, that France would lose some budget due to an allocation key based exclusively on land used for organic agriculture, while Romania would lose out due to an allocation key based on Natura 2000 areas, etc. There is probably scope to find an acceptable consensus in favour of a shift to budget streamlining according to the production of public goods.

in Member States' political visions. The CAP has basically become a counter which distributes undifferentiated forms of aid on the basis of land and with a view to supporting farming income. Such aid has no great legitimacy in social terms, or in terms of the provision of public goods: the distribution of aid is highly concentrated on a limited number of recipients and the CAP greening introduced by the 2013 Regulations have had little real effect on improving biodiversity, soil protection and combatting climate change. Yet such aid is a component of farming income, which makes any in-depth reform difficult to implement, especially as Member States remain highly attached to national budget return criteria.

In view of these observations, the Commission is proposing more decentralised CAP governance, in which EU Member States would have even greater freedom of action through the drafting of national plans, financed by the European budget upon their approval. Despite the Commission's drive to uphold common objectives, the risk remains that the CAP becomes a mere envelope which Member States can use to conduct very different policies. Similarly, despite rhetoric on a more sustainable CAP we can predict a sharp decline in the environmental requirements and budgets dedicated to these aspects. [26] This could be seen as a short-term victory for the more conservative lobbies. Yet in the longer term, it is hard to see why taxpayers would accept to finance a policy which no longer provides a public good and for which the European added value has been significantly diminished as a result.

The Commission's proposal does, however, contain the necessary ingredients for a renewed policy in line with the European agricultural model. The results-oriented approach which is put forward is worthy of a key position in the future CAP. It is not incompatible with a simplification of the policy. While this is necessary, it should not be confused with a renunciation. If it were properly governed on an EU level, a decentralisation of policies could help to achieve this.

This entails taking the approach as far as it will go and adopting a Community framework which finances a policy focused on the idea of "public money for public goods". **A large portion of the first pillar budget must be earmarked for a contract with farmers concerning the provision of public goods**, avenues for which have been discussed in this paper. For farmers and regions of the Member States, simplification involves a genuine results-oriented approach which would replace the means-related conditions currently implemented. In addition, the national budgets of the CAP must no longer be the result of political compromises, but rather must be based on objective criteria, including in particular progress in the provision of public goods, conservation of our natural capital, training, innovation, social cohesion and health.

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26. There are several indicators that warn that this risk is real: the budgetary threats on the second pillar, the uncertainty concerning the continuation of the current conditions for the granting of "green" payments, the apparent lack of any minimum threshold for the share of budgets dedicated to agri-environmental action, etc. The fact that Commissioner Hogan presents the Commission's proposal as a response to the demands of Member States who would like a CAP which is simplified and refocused on income aids and investment suggests that the Commission no longer keeps pressure groups in check effectively and no longer guarantees the general interest as it has done in previous reforms.

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