

## **THE CAP REVISITED: A REFLECTION ON CHALLENGES AND OPTIONS**

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### **Background**

- The EU Common Agricultural Policy is under a reform process. The CAP after 2020 reform now appears to take place in a unique set of circumstances, and namely:
- The legal proposals made on the CAP on 1 June 2018 aim to make it more responsive to current and future challenges. The Commission proposes a better targeting to get a fair deal, with the support earmarked for farmers that are in need, such as small farms and young farmers. A higher ambition on environmental and climate action is proposed with mandatory requirements, including preserving carbon-rich soils and taking measures to improve water quality and reduce ammonia and nitrous oxide levels. Moreover, EU Member States have to develop voluntary eco-schemes to support and incentivize farmers to observe agricultural practices beneficial for the climate and the environment. Finally, a new delivery model should make the CAP more effective and the subsidiarity principle should strengthen the level of discretion at the Member State level. Member States have to define their policy implementation choices in a well-motivated National Strategic Plan. Whereas direct payments are still centralized, there is a rebalancing of the role between the EU Commission and Member States in other areas.
  - After the EU Commission's communication of the new CAP and its publication of the legal proposals in June 2018, there has been a discussion in the European Parliament (EP), which however could not come to an agreement with the EU Commission before the EP elections that took place between 23 and 26 May 2019. Compared to its old composition, the new Parliament has a stronger representation of the far-right and green parties. The new composition of the Parliament led to a reevaluation of the CAP proposals, which may change the course of action taken by the previous Parliament to a substantial extent.

- After the elections, the new European Commission had to be formed. The von der Leyen Commission took office in December 2019. The Commission had to negotiate a joint political program for the EU with the Parliament and the Council. Compared to the Juncker era, the new program puts more emphasis on sustainability, especially when it comes to climate (climate neutrality by 2050).
- At the end of January 2020, the COVID-19 pandemic spread across the EU via Italy, leading to an unprecedented crisis, with already more than one million people infected with the virus and more than 167 thousand casualties among EU citizens. Restrictive measures had to be taken, which limited the movement of citizens in the affected countries and it had a severe impact not only on people's lives, but also on the economy. In response to this, both Member States and the EU Commission made rescue plans which provide massive financial support to reduce the negative economic consequences, both for the short- and medium-run. All these events will affect the priorities and possibilities of the current CAP reform. The change of the Commission composition is likely to lead to a change of priorities. The crisis may open the doors to new options, while at the same time it may limit the options for change as budget tightness may be influenced not only for the short-run, but also for the years to come.

### **The Green Deal and Farm to Fork Strategy**

In December 2019, the new EU Commission published a Communication on the European Green Deal (COM (2019) 640 final), in which it launched the debate on the strategy to become the world's first climate-neutral continent by 2050. This initiative was welcomed by the European Parliament in January 2020, which called for an even more strict reduction in the amount of greenhouse gas emissions by 2030 than the Commission had already proposed (55% instead of 50% reduction in emissions). The European Green Deal goes well beyond just a climate policy as it includes a new sustainable growth strategy, emphasizing that decarbonization, sustainability, protection of natural resources and biodiversity, as well as economic competitiveness must go hand in hand. With respect to agriculture, it is important to note that the Green Deal follows a food systems approach. An implication of this approach is that agricultural policy will be evaluated with respect to its contribution to achieve a fair, healthy and environmentally-friendly agri-food system to a greater extent than before (Hoes et al, 2019).

On 20 May 2020, the EU Commission published its delayed Farm to Fork Strategy. The Farm to Fork Strategy aims to strengthen the food sector efforts to tackle climate change, protect the environment and preserve biodiversity, reducing at the same time the use and risk of chemical pesticides as well as the use of fertilizers and antibiotics significantly on the basis of scientific evidence and stakeholders dialogue. The Farm to Fork Strategy also aims to contribute to achieving a circular economy, reducing the environmental impact of the food processing and retail sectors by taking action on transport, storage, packaging and food waste. As far as demand is concerned, the Farm to Fork Strategy aims to boost sustainable and healthy food consumption by increasing consumers information on the intrinsic value of the food they consume.

The European Green Deal and the Farm to Fork Strategy are getting underway as the reform of the CAP should be brought towards a conclusion. In the EC Communication of 11 December 2019, it was indicated that the revised Common Agricultural Policy (CAP) would be likely postponed to the beginning of 2022, which even further increases the overlap. The Farm to Fork Strategy explicitly refers to this by stating that the Member States' National Strategic Plans have to be evaluated with respect to their contribution to the achievement of the Green Deal's political priorities.

### **Where are the links and overlaps?**

The EU's New Green Deal policy plays an important role in achieving the transition to a climate neutral food system, which at the same time addresses four other important objectives (see Figure 1, EU Green Deal). From the perspective of food systems, within the Green Deal roadmap, in particular the part focusing on agriculture and food, the Farm to Fork Strategy is of special interest for the CAP. The Farm to Fork Strategy indicates four main priorities, which in addition to the objectives to reduce the role of chemical fertilizers and pesticides, prioritizes the objectives to reduce the use of antimicrobials in farmed animals and enhance organic agriculture. Figure 1 compares these priorities and focus areas with the nine objectives of the proposed CAP after 2020.

By way of illustration, arrows have been added to indicate the main connections between the EU Green Deal, its Farm to Fork Strategy, and the proposed CAP after 2020. An analysis of this Figure allows for making the following observations. The Farm to Fork Strategy only covers a limited subset of the Green Deal objectives, with focus on sustainability, environment and consumer health. The roadmap also mentions other elements, such as the EU's Biodiversity Strategy. Although a bit 'hidden', a link to consumer demand is present with respect to the objective to increase the EU's land area dedicated to organic farming, as this will first and foremost need measures that stimulate demand for organic products aside of other measures. With the proposed reductions in the use of chemicals (-50% by 2030) and fertilizers (-20% by 2030), the divergence between conventional and organic agriculture is likely to diminish. Given this convergence, it is a bit surprising that such a strong emphasis is still put on organic agriculture (25% farmland share by 2025), and questions arise with respect to the reasons behind it.

As Figure 1 further illustrates, there are multiple links between all the Green Deal 'objectives' and the nine general objectives of the CAP after 2020. The most indirect one might be the trade policy objective. However, the trade issue establishes an important indirect link, since an aligned trade policy will be crucial to ensure that EU farmers will face a level playing field and fair competition with the outside world. Thus, as regards the links between the EU Green Deal and the CAP, the key issue is not the lack of connections or coverage of topics, but rather whether the implementation of the CAP after 2020 will be aligned with the Green Deal priorities and objective target levels. Both the Green Deal and the Farm to Fork Strategy indicate a strong ambition with respect to sustainability or environment and climate action. This ambition is stronger than that of the currently proposed CAP after 2020.

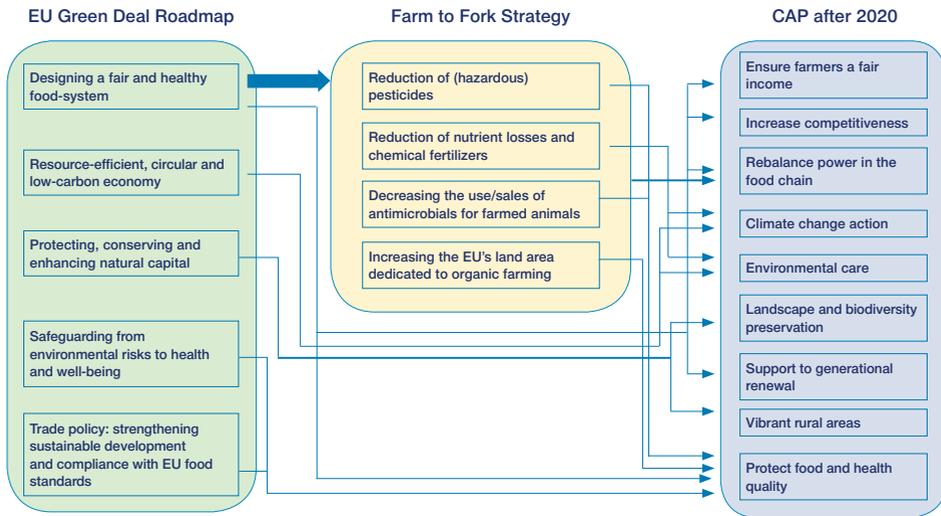


Fig. 1. The EU's New Green Deal roadmap, Farm to Fork Strategy, the CAP after 2020 and some main connections.

### New CAP reform challenges related to improving sustainability

The proposals made for the CAP after 2020 address the need to improve the sustainability of agriculture in various ways, as this is comprised by the proposed new green architecture of the CAP (Jongeneel and Silvis, 2018).

Via the enhanced conditionality, it establishes and ensures a well-defined baseline, which goes beyond of what may be required outside the EU (public support for farmers outside the EU also varies). The proposed EU baseline now includes the greening requirements (and have these extended to all farms) that are currently supported by a Green Payment, comprising 30% of the first pillar national envelopes. In the Farm to Fork Strategy, it is argued that the enhanced conditionality should avoid backsliding, implying that the new target levels, which are to be chosen, should be at least as ambitious as the current ones.

An innovation in the current legal proposals is the instrument of eco-schemes in the first pillar of the CAP. The eco-schemes are defined as voluntary schemes (for farmers) for the climate and the environment and should be specified in greater detail in the National Strategic Plans of Member States. The requirements for the eco-schemes in the current proposal are quite flexible and somewhat vague. The allowed compensations for eco-schemes (paid as per hectare top-up payments) should be linked to the cost of the efforts made by farmers: the payments can be a fixed amount per hectare or be based on a compensation of income forgone or additional costs. In the Farm to Fork Strategy, two additions are proposed: (i) eco-schemes should become mandatory therewith, enforcing farmer participation; and (ii) a ring-fencing condition for the budget spent on eco-schemes should be introduced. In this way, the new Commission wants to strengthen the expectations

and ambition level with respect to the eco-schemes. Moreover, it announces to come with more guidance (“additional indications”) and interactions with Member States on eco-schemes.

The third element of the green architecture is the agri-environmental and climate-schemes (AECMs) of the second pillar of the CAP. AECMs provide support for management commitments comprising a wide range of activities (which is more extensive than the activities covered by eco-schemes). For example, it may include: organic farming premia for the maintenance of and conversion to organic land; payments for other types of interventions supporting environmentally friendly production systems, such as agro-ecology, conservation agriculture and integrated production; forest environmental and climate services, together with forest conservation; premia for forests and establishment of agroforestry systems; animal welfare; conservation, sustainable use and development of genetic resources. The coverage of this instrument has been extended in that Member States may grant compensatory payments for area-specific disadvantages imposed by any mandatory requirements resulting from the current environmental framework that go beyond the conditionality requirements. Member States may develop other schemes under this type of interventions on the basis of their needs. To sum up, this intervention can support measures that target any of the nine specific CAP objectives (see Figure 1). Only agri-environmental measures are mandatory, the others are optional. The Farm to Fork Strategy does not propose further changes to the AECMs.

Aside of the greening architecture, other second pillar CAP measures which should be mentioned here are the possibilities given to Member States to support productive and non-productive investments, both on farms and off-farm. The interventions in the proposed new CAP cover seven fields: investments in basic / local services in rural areas, land purchase for environmental conservation, agricultural and forestry infrastructures linked to environmental and climate-related issues, land purchased by young farmers through the use of financial instruments, restoring investments following natural disasters and catastrophic events, and investments in irrigation in line with the river basin management plans. The importance of these measures for achieving the Green Deal objectives is clear. In a working document published on 20 May 2020, the Commission further elaborates on the links between the CAP reform and the Green Deal and confirms the importance of the Rural Development Pillar and the ring-fencing of spending at least 30% of the rural development budget at the level of each CAP Strategic Plan on the environment and climate, along the lines of the Commission’s proposal (i.e. excluding support for areas with natural constraints).

### **Conclusions**

It can be concluded that the proposed CAP after 2020 offers sufficient flexibility to strengthen the sustainability and climate dimension of the EU’s agricultural policy. The Green Deal and its related Farm to Fork Strategy announce a paradigm shift suggesting a real policy transition. However, when comparing various policy documents, it turns out that there is a lot of parallelism between them. As such, it seems

a bit premature to call this a paradigm shift. The reason it is still referred to as such could be that the Commission acknowledges that so far the greening has been of secondary importance compared to direct farmer (income) support. The Commission may want to signal that from now on the income support will play a secondary role. That would be a ‘paradigm’ shift, but the debate in the coming years should show whether the current CAP reform would imply such a break. However, the additional priority emphasis put on sustainability and climate change seems to be well justified, both from the perspective of the new demands (e.g. the Paris Agreement on greenhouse gas reductions), as well as because of the lack of progress made in the past.

The past has shown how difficult it is to achieve the political consensus on such a shift. The needs related with farm income support and preserving competitiveness are high on the political agenda and are likely to maintain their position. Moreover, the current greening system has not been evaluated as very effective and as insufficient with respect to the value for the money that it offered. In addition, the new greening architecture, while strengthening the set of greening measures is at the same time flexible and includes vagueness with respect to the role and place of the new eco-schemes, leaving room for varying greening ambitions of Member States.

The new Commission has expressed a strong ambition with its Green Deal, especially with respect to achieving climate neutrality. It even claims the EU will become the world’s leading economy in this regard. In addition, the European Parliament is more green than it used to be. However, their position in favor of the environment may be counterbalanced by the far-right, which are likely to be more sceptical with respect to climate change and would probably advocate the freedom of Member States, as it is in the current proposals. Finally, the COVID-19 crisis creates an unexpected need for damage control and associated direct farmer support, which may limit the budget available for achieving new ambitions, irrespective of how justified they are.

Taking into account that decisions on CAP reform will have to be made in a period in which the world still has to recover from the COVID-19 crisis, with the recession putting a negative pressure on world demand, and thus on prices and farm incomes, it is likely that a considerable tension between direct support to farmers and the further greening of the CAP will prevail.

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