

# **European Landowners Organisation (ELO)**

## **Response to Commissioner Ciolos Consultation on the post-2013 CAP**

1. This paper provides a summary of ELO responses to four questions posed by Commissioner Ciolos. A full paper explaining our arguments and ideas is available on request. The ELO represents the interests of private rural landowners and land-based rural businesses in all Member States. We have been debating the future role of the CAP for many years. We suggest that the CAP, and the EU budget heading which funds it<sup>1</sup>, have a critically important role to help the EU achieve and maintain **Food and Environmental Security**.
2. The agricultural and forest land management sectors and their related upstream and downstream activities are a dynamic part of the European economy. As the pressure on our land resources increase these sectors become more knowledge intensive, precision activities. The new paradigm is to see the enduring roles of food, forest and 'fuel or green chemistry' production as part of a broader ecosystem service function embracing biodiversity, cultural heritage, water and carbon management. Europe can provide a global role in finding the business structures and integrated policy instruments to deal with these complex challenges. They are a very important contribution to the vision of smart, sustainable and inclusive growth which is at the core of the Commission's vision for Europe 2020.

### ***What do citizens expect from EU agriculture?***

3. The view of the ELO is that European citizens expect essentially two sets of outputs from agriculture<sup>2</sup>. First, they want a secure supply of affordable, high quality, nutritious food and other agricultural outputs which are used to produce a wide range of non-edible products including renewable energy, ornamentals, biodegradable plastics and pharmaceutical products. Second, in the process of producing these land-based, marketed and traded products, Europe's farmers and other land managers also provide a wide range of other non-marketed, and generally non-traded, services which citizens desire, namely: resource protection of water, soil and air, biodiversity, and cultural landscape and heritage. Many of these underpin vital rural recreation and leisure activities. **In summary European citizens expect their land managers to farm sustainably providing them with Food and Environmental Security.**

### ***Why do we need a Common agricultural policy?***

4. There are six cogent reasons which, in combination, explain why it is not sufficient for government to sit back and let markets alone determine the quantities and prices of the complex mix of marketed and non-marketed services provided by agriculture. These unique characteristics of food, agriculture and the countryside mark the sector out as quite distinct from all other economic sectors, and thereby justify special policy treatment, i.e. an agricultural or rural policy. These features, spelled out in the full paper are:

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<sup>1</sup> Which is most appropriately called the Preservation and Management of Natural Resources.

<sup>2</sup> **Broad definition of agriculture.** As this paper which is about the future of the CAP and the CAP is already involved in a very wide range of land management activities, we include in the simple word of agriculture (or farming), **all** these activities including horticulture, woodland and forestry, recreational land management including hunting, and of course environmental, or nature, management. Our view is that most European farmers, or what we would term land managers or rural businesses, are involved in several of these activities going well beyond the usual narrow definition of agriculture.

- Land management provides necessities of food and other ecosystem services without which life ceases
- Farming is a highly fragmented industry structure facing imperfect competition
- It confronts biological, climatic and economic volatility
- It must develop diversified multi-faceted businesses to survive
- Pervasive market failure characterises the environmental services delivered and deliverable by farmers
- Dispersion and sparsity create problems for rural services and infrastructure provision

### **Why we need a Common EU policy**

5. We point to five arguments, five–Cs, which justify a common European approach, these are:
  - Competence: EU policy has Treaty defined competence for food, agriculture, environment and trade, we should build on this.
  - Competitiveness; without common arrangements there will be trade distortions within the single market.
  - Cross-boundary effects, most of the environmental services, Greenhouse gases, water and biodiversity span national boundaries
  - Common EU goals: European citizens value environment and landscape beyond their borders
  - Cohesion; a CAP oriented to Food and Environmental Security can serve cohesions goals for Europe.
6. The ELO believes that given these characteristics of agriculture and reasons for policy interventions it is perfectly rational that the EU should devote up to 0.5% of its GDP to the policy which seeks to ensure a sustainable food production base and high standards of environmental land management across the 70% of its territory which is agricultural and forest land. We defend this even in circumstances of tight public budgets. The policy must however show that it is well-tuned to achieving what citizens want and expect, and that its measures are implemented in a cost effective way to achieve these objectives. The important reforms of the last two decades have further to go.

### **Why reform the CAP?**

7. There are five main pressures for change concerning:
  - overall budget cost;
  - legitimacy of the single payment system;
  - distribution of supports;
  - continuing low and volatile farming incomes
  - under-provision of public goods.
8. We reject the claims that the CAP is self-evidently receiving too much public support and occupying too large a share of the EU budget (which has been steadily falling for decades). We propose how the legitimacy of the SPS can be improved, how this will lead to more objective distribution of CAP supports, help maintain incomes and their stability and provide more public goods.
9. These pressures demand further evolution, not revolution, in the CAP and how its resources are shared, and that the total quantum of resources should not be far from the current level for the next financial perspective until 2020.

### ***What tools do we need for the CAP of tomorrow?***

10. ELO urges the Commission not to be dogmatic about which pillar is good and to be expanded, or less good and to be shrunk. This paper therefore makes no explicit proposals about this. It is suggested that the debate proceeds instead by agreeing the jobs to be done by the CAP, their purpose and the kinds of measures needed to do them in the most cost effective, least bureaucratic, most simple and securely funded, way.
11. As we agree the purpose of future policy we can then have a transparent discussion about the redistribution of the total supports available for the CAP. ELO urges that this be objectively based on agreement about the purposes of the supports. Given objectives of food and environmental security, obvious distribution keys are based on appropriate measures of agricultural land area, weighted by income levels adjusted for purchasing power parity. We furthermore propose that whatever the method is used to distribute support *between* the Member States, the distribution of funds *within* Member States, e.g. between the four UK devolved territories, is left to the Member States.
12. All discussions on farm payments are invariably accompanied by suggestions to cap or progressively reduce large payments to large holdings. We strongly resist such proposals. As more of the justification for the payments is acknowledged to be for land management then capping or tapering makes no sense. Large businesses will deliver large services. Capping and tapering also ignore differences in farm structures and employment, the impacts on competitiveness of farming.

### **Proposed elements of the post-2013 CAP**

13. We believe the reformed CAP will require the following five elements:
  - A. Agricultural Productivity, Competitiveness and Stability
  - B. Basic Decoupled Payment scheme
  - C. Tiered Agri-environment Schemes
  - D. Measures for Marginal Areas
  - E. Wider Rural Development

#### **Element A. Agricultural Productivity, Competitiveness and Stability**

14. The core business of farming is the production of affordable, safe, wholesome, nutritious food. Production systems should be productive and competitive, and economically, environmentally and socially sustainable with appropriate standards of animal health and welfare. The CAP has vital roles to play to help ensure conditions for profitable and sustainable food production. Given that agriculture is a biological process dependent on the weather, and has a highly fragmented structure not well suited to sophisticated risk management, it is necessary also that the CAP helps provide some basic safety net for the incomes of those engaged in farming and environmental management.
15. The ways in which the CAP currently assists are :
  - i.* Help with training, knowledge transfer and skills
  - ii.* Aids for farm restructuring, new entrants and helping retirement
  - iii.* Aids for producer groups, to stimulate farmers working together, to be able to access professional management for input purchasing, output processing and improved marketing,
  - iv.* Help with crop insurance and animal disease insurance
  - v.* Residual, safety-net, commodity market intervention

- vi. There is little or no provision for R&D in the CAP, it should be debated if it is appropriate to include such provision within the CAP
- vii. Aids for investment to assist the new challenges of green growth:
  - Renewable energy development, biomass, biofuels and biogas
  - Reducing Green House Gas (GHG) emissions
  - Waste management including Anaerobic Digestion
  - Meeting Water Framework Directive (WFD) Objectives.

#### **Element B. Basic decoupled payment scheme**

16. The Single Payment System (SPS) is a dominating element of the CAP (70% of the CAP budget) and there is a high degree of dependence of EU farmers on these payments. Some kind of basic payments decoupled from agricultural products and prices will be a continuing part of the CAP. The justifications offered for such payments are:
  - They provide the basis for keeping agricultural land in good agricultural and environmental condition which is an intelligent contribution to food security
  - They provide some surety and stability for farmers' incomes
  - They compensate for higher regulatory costs
  - To pay for public good provision
17. However, given the irresistible pressures for changes in the policy, we face changes to these payments. We insist that the pace of any such change must be carefully moderated and phased in over a period of years to take account of farmers who have made leases, taken loans and committed themselves to investments on the basis of continued supports.
18. Payment decoupling was a critical part of the EU's offer in the Doha Round of WTO negotiations. The process of decoupling is not complete, and all Member States should be required to complete it in the post 2013 period.
19. On the issue of historic versus flat rate payments it is generally accepted that, over time, historic based payments become harder to explain and justify. Whereas, area payments are seen as more fully decoupled and more obviously explained as payment for land management and offer simplification of administration. However the ELO is not suggesting that all regions should be required to shift to regional average payments after 2013. This is essentially a matter of the distribution of the support which should be an objective exercise done in a forward-looking way for the totality of CAP expenditure based on agreed objectives and indicators.
20. To bring about a closer alignment between payments and objectives ELO proposes that consideration be given to adapting the SPS to more purposefully engage in delivery of public goods. As argued above it already does this to some extent, but it should go further and be made more explicit<sup>3</sup>. The key point is that the nature of *part of* the SPS changes in three ways:
  - The **purpose** explicitly changes from the original compensation for previous policy change, to payment for public good delivery.
  - The period of the payment changes from annual payment based on an annual application process to a **multi-annual** (say 5 or 7 years) payment.

<sup>3</sup>

This idea is not dissimilar to suggestions by others writing on the future of the CAP, for example Pack (2009), The Dutch Social and Economic Council (2008), Bureau and Mahe (2008), George Lyon (2010), Paolo de Castro (2010), BirdLife International (2009), and a group of Twenty Agricultural Economists (2009) although the latter wanted the policy to be financed nationally.

- The character changes from a cross compliance concept to a more conventional compliance based on a **voluntary contract**.
21. If the basic payment, funded as now 100% from the EU budget, is to be defined (in part) as a payment for public goods, then the level of public goods expected is likely to be above the current cross compliance standards. How much above is for negotiation. ELO furthermore suggests that the approach to public delivery should be based more on agreed outcomes sought, leaving more flexibility for the local knowledge and experience of land managers to bring about the outcome. The precise method of achieving this amalgamation of the best aspects of both pillars of course requires further consideration.
  22. Broadly speaking this adaptation of the SPS could be seen as development of the Specific Support (Article 69) approach. It could offer to deliver a basic suite of the environmental services scaled somewhat above the legal reference levels to protect natural resources and landscape and deliver biodiversity<sup>4</sup>. And/or it could focus more narrowly to 'do' within Pillar 1 the support of marginal farming in what we currently call Less Favoured Areas. This issue is discussed further under Element D below. The move from the current annual basis to, say, a five year, contractual, land based, payment could – once the transformation is made – offer a significant reduction in bureaucracy both for farmers and administrators.

### **Element C. Tiered Agri-environment schemes**

23. Linked to the suggestions for the development of the SPS, the delivery of public goods will require a range of environment schemes ranging from wide-application, relatively less demanding schemes providing basic environmental services, through intermediate schemes based for example on management regimes like Integrated Farm Management or Organic Farming to more, demanding and costly contracts for specific environmental management.
24. As this approach develops it has to address the following matters.
  - i. These schemes must deliver environmental outcomes, hence it may be better to define them more in terms of outcomes (than inputs or prescriptions) embracing local knowledge and experience.
  - ii. Ensuring that farmers who have maintained habitat are not disadvantaged compared to those who have destroyed it and may be paid to restore or create it.<sup>5</sup>
  - iii. The number of tiers required to cover all the environmental services with appropriate incentives.
  - iv. Ensuring that payment rates acknowledge that the opportunity costs differ e.g. from an intensive vegetable farm to one growing feed wheat.
  - v. Ensuring that the schemes are equally and equitably available on owned and leased land, and dealing different lease and contract lengths.
  - vi. Devising less bureaucratic monitoring and evaluation.
25. There is no avoiding the fact that the current regulatory framework for the payment principles in these schemes is based on income forgone, direct costs and a profit element. These principles they are deeply enshrined in International Agreements (the Green Box of the Agricultural Agreement in the WTO) and in EU regulations. The key is to maximise the use of the flexibility in the way these regulations are framed.

<sup>4</sup>

Akin to the wide application, base level, agri-environment schemes available in some countries.

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This is the EU version of the same question which is posed globally, can we find ways to incentivise landowners who have not destroyed vital habitat like rain forests to keep them intact?

#### **Element D. Measures for Marginal Areas**

26. European Farming is characterised by having a significant area of land occupied by long-established, relatively low intensity, mostly livestock grazing farming systems which are economically highly marginal. The landscape and biodiversity associated with such farming systems has evolved over centuries and is treasured in its own right. These farming systems are economically fragile even with current supports. Without support for these systems large tracts of land will be abandoned with associated food output, environmental, cultural and social loss. The CAP has a key role to help avoid abandonment.
27. ELO proposes that we celebrate these areas for what they are good at – their valued cultural landscape and unique habitats – instead of focusing on the activities for which these regions are not internationally competitive, i.e. their agricultural production. So we suggest we should in future define these regions as Environmentally Favoured Areas (EFAs) rather than ‘Less Favoured Areas’ suffering ‘permanent natural handicap’. An EFA should, in principle, embrace all environmental aspects; water management (run off, water filtration, flood mitigation, water storage), carbon sequestration, soil protection, and of course biodiversity and cultural landscape and heritage management.
28. The critical challenge is to ensure that the totality of the support available is sufficient to keep people in these areas practising traditional farming methods. At present these farms survive on the basis of the Single Payment plus the extra support provided by environment schemes and LFA payments. The future could be the redefined basic decoupled payment as explained under Element B above thereby consolidating support for marginal areas into Pillar 1. However this is done it is critically important to scale their payments to reflect the opportunity cost of farmers compared to their *best* alternative – which will often be outside farming. Without this, abandonment of farming and thus abandonment of the environmental management, will result.

#### **Element E. Wider Rural Development**

29. The prime purposes of rural development policy are to encourage economic development and diversification of rural areas, and to ensure that these areas do not suffer from poorer service provision than urban areas are. The rural development element of the CAP is never going to be a major part of the CAP, but neither will it, nor should it, disappear. It is especially the case that the poorer Member States which have a higher proportion of their workforce engage in farming will make greater use of the measures available under this element. In this way the CAP has an important contribution to EU cohesion objectives. ELO does not have new instruments or measures to add to the existing set, we simply argue that they are still necessary although to different degrees around the regions of the EU.
30. An important role of the current axis 3 and 4 Rural Development measures is the maintenance and creation of social capital. In order to maximise the exploitation of the distinctiveness of rural regions it is important to bring together land managers (farmers and foresters), other local businesses conservation, environmental and recreational interests and local authorities to work together to raise product quality and promote local produce and land-based services. There are many examples where the LEADER programme has been an important catalyst in stimulating such social capital.