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Which role for public policy?

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Future CAP - food security and safety are the key

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Abstract

Currently a reform of the CAP is being prepared. The EC proposed a set of alterations that in its opinion should make the CAP just the right tool to achieve the “Europe 2020” objectives within agricultural sector and rural areas. The paper argues that the reform Cap should focus on food security and safety as these issues encompass all the main challenges that are to be faced by agriculture and rural areas. Yet, the EU proposal is far from offering a coherent set of policy measures. The article suggests that in order to ameliorate the proposal a hierarchy of objectives must first be named.

Keywords: common agricultural policy, food security, food safety

JEL classification: Q01, Q18.

1. INTRODUCTION

Never in the history of the European Union’s common agricultural policy (CAP) has the climate for the debate on its reform been that tensed. The sovereign debt crisis facing a number of the euro zone countries as well as the globalization and climate change concerns create complex initial conditions for the debate on the CAP. The global crisis resulted in the questioning of rationale of the economic policies and the role of state in the 21st century’s economy. The CAP has been the subject of common criticism for years, even before the current crisis. Most disputed have been its costs and low effectiveness. Therefore, for over a decade policymakers have been trying to reshape it, changing its rationale to environmental issues and paying farmers for providing public goods. Yet, the policy objectives stipulated in the treaty have never been altered since the Treaty of Rome and the policy is still concentrated on farmers’ incomes.

The paper is based on the assumption that the CAP’s objectives named in the Treaty and the EU’s strategic priorities given in the strategy “Europe 2020” are unchangeable at least until the year 2020. The article is aimed at arguing that the CAP’s objectives must be put in hierarchical order with the food security combined with food safety given the status of the strategic priority and serving as the starting point for creating policy instruments. The research question of the paper is the dilemma of how to define food security and safety minimizing the trade-offs between food production and environmental concerns as well as between support for farmers and consumers’ budget constraints.

As methodological framework the grounded theory, developed by B. Glaser and A. Strauss, is used as this is judged to be the best approach applicable to exploring a complex issue of the CAP’s objectives given the current challenges facing both the agriculture and the European Union and its policies.

Assessed by using both the traditional Tinbergen-Theil's theory of economic policy and post Keynesian perspective to the economic policy, the current CAP with its plethora of objectives and instruments cannot be effective. Seeing the environmental constraints as the most vital limitation to the long term public policy, especially in case of the agricultural policy, it is argued that the concept of sustainable development should be applied to all the CAP's instruments and mechanisms. This approach can also answer the problem of balancing the contradictory needs and expectations of all the stakeholders. Moreover, it should help in finding the equilibrium between production of food and public goods.

The article consists of three main parts. The first one serves as an introduction to the CAP and is devoted to the objectives of this policy. In the second part the issue of proposed reform for the period 2014-2020 is tackled. The third part is the key element of the paper and argues that balancing the future CAP towards a clearly defined set of just a couple of objective can not only reconcile the CAP with all the other EU policies but also contribute to a significant increase in its efficiency and effectiveness.

2. CAP'S OBJECTIVES

The EU common agricultural policy is one of the oldest EU policies. It is also considered to be the most common of all the EU activity tools. Yet, almost from the very beginning of its history it has been highly criticised. Ever since the Treaty of Rome the objectives of the CAP have been the same. In the Treaty on Functioning of the European Union they are stipulated in article 39 and are as follows:

- increasing agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;
- ensuring a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- stabilising markets;
- assuring the availability of supplies;
- ensuring that supplies reach consumers at reasonable prices.

In fact these five objectives are not equal to one another. There is a clear cause-consequence relation between the first and the second one as the word “thus” is used before the second one. Therefore, it is clear that a fair standard of living should result from increasing agricultural productivity and that this standard is not seen as an autonomous objective but a final result of implementing CAP policy instruments.

It is clear that the objectives are, to say the least, a challenge if they are to be achieved at the same time. The most difficult point is the expectation of reasonable prices at the consumer level. First of all it is not specified what is meant by this term. Second of all, it does not take into account the fact that there is a long chain of middlemen between farmer and final consumer. Thus, if the CAP was to contribute to achieving this policy objective it should be

empowered with tools influencing not only agricultural production but all the further steps of supplying food to the EU consumers. Yet, it seems impossible that such an influence can be exercised in a market economy given the fact that the supply of agricultural products is not solely a function of farmers' production decisions.

In working on the achieving of the CAP objectives it is envisaged to use a set of special methods for its application. They include:

1. the particular nature of agricultural activity, which results from the social structure of agriculture and from structural and natural disparities between the various agricultural regions;
2. the need to effect the appropriate adjustments by degrees;
3. the fact that in the Member States agriculture constitutes a sector closely linked with the economy as a whole.

As it is visible from this list, the CAP is supposed to operate in as specific environment that is shaped by the nature of agriculture as a sector of economy characterised by a strong influence of external forces beyond the human control. Moreover, the agricultural production is the most basic for human existence, thus, it must be deliver to the market in the volume ensuring minimal level for everybody.

It is important to bear in mind that the CAP was created in the period post second world war that was characterised by a highly devastated agriculture and insufficient supply potential. Therefore, the key objective for policy makers was to rebuild a viable agricultural sector ensuring food security.

3. WHAT IS EXPECTED FROM THE CAP AT THE EU POLICY MAKING LEVEL?

In 2010 the European Union worked out its new growth strategy "Europe 2020. A strategy for smart, sustainable and inclusive growth". This is a strategy that sets out the key objectives of the EU for the period 2010-2020. It was prepared after the financial and sovereign debt crises where already visible in the macroeconomic performance of the EU countries. It clearly takes into account the challenges facing the EU and the need for its transformation. The strategy names three mutually reinforcing priorities:

1. Smart growth: developing an economy based on knowledge and innovation.
2. Sustainable growth: promoting a more resource efficient, greener and more competitive economy.
3. Inclusive growth: fostering a high-employment economy delivering social and territorial cohesion.

These priorities are to be applied to all the areas of the EU activity and are supposed to shape the changes in the policies that are to be introduced in the new programming period starting in 2014.

These priorities are accompanied by a set of specific indices enabling basic quantification of the progress in achieving the policy performance. They include:

- 75 % of the population aged 20-64 should be employed;

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- 3% of the EU's GDP should be invested in R&D;
- the "20/20/20" climate/energy targets should be met (including an increase to 30% of emissions reduction if the conditions are right);
- the share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree;
- 20 million less people should be at risk of poverty.

Each member state is obliged to contribute to the achievement of each of these indices based on its actual situation in a given field.

In 2011, prepared based on the strategy "Europe 2020", the European Commission (EC) presented a strategic document concerning the future of CAP entitled "CAP towards 2020: meeting the food, natural resources and territorial challenges of the future". There it put forward a set of policy objectives for the functioning of CAP in the period 2014-2020:

1. viable food production;
2. sustainable management of natural resources and climate action;
3. balanced territorial development.

These policy priorities clearly show the way CAP is supposed to develop. It is worth noticing that the policy priorities are wider than the policy objectives stipulated in the Treaty¹. Yet, these priorities can be seen as a specification of the Treaty objective of increasing agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production. However, balancing territorial development is only distantly related to this aim.

In October 2011 the strategic aims of the CAP 2014-2020 were followed by the EC's proposals for regulations concerning the functioning of this policy. In these documents the EC underlined that the past reform of the CAP were mostly concentrated on the internal challenges of functioning of the agricultural sector in the EU economy. The new reform is going to be more externally orientated. The EC expressed the opinion that the "pressure on agricultural income is expected to continue as farmers are facing more risks, a slowdown in productivity and a margin squeeze due to rising input prices; there is therefore a need to maintain income support and to reinforce instruments to better manage risks and respond to crisis situations". This way of reasoning is complimented by a statement that "a strong agriculture is vital for the EU food industry and global food security". Thus a contribution of the EU and its agriculture to ensuring food security at a global level is announced. A globally active and competitive EU agriculture is an EU aim of its own as the EU market is already saturated and has hardly any growth potential. Therefore, only global presence of the EU agriculture can help stabilizing the EU agricultural markets. This contribution to the food security can also be seen as an expression of agriculture's input towards smart growth. Achieving a significant surplus in the EU agricultural production requires constant efforts in increasing the productivity of its input. Given the fact that there is hardly any possibility to employ greater volume of factors of production, especially of land, a

¹ This issue is strongly emphasized by agricultural activist from the Polish biggest opposition party as a serious point in negotiating the CAP and its budget.

raise in production can only be achieved by an increase in productivity that requires innovation and cooperation with science because simple reserves have already been exploited.

The EC's proposal also underlines the agriculture's obligations stemming from the strategy "Europe 2020". It states that "agriculture and rural areas are being called upon to step up their efforts to meet the ambitious climate and energy targets and biodiversity strategy that are part of the Europe 2020 agenda". It acknowledges the important role of farmers, "who are together with foresters the main land managers, will need to be supported in adopting and maintaining farming systems and practices that are particularly favourable to environmental and climate objectives because market prices do not reflect the provision of such public goods". These statements vividly show that agriculture is seen as a serious element of measures aimed at coping with climate change issues as it directly relies on the good state of environment. This part of the targets stipulated for agriculture shows its role in accomplishing the goal of sustainable growth.

Moreover, the EC's proposal also names the CAP's role in leading to an inclusive growth. In its proposal the EC states that "it will also be essential to best harness the diverse potential of rural areas and thus contribute to inclusive growth and cohesion".

All this is envisaged to serve the purpose of turning the CAP into "a policy of strategic importance for food security, the environment and territorial balance. Therein lies the EU added value of a truly common policy that makes the most efficient use of limited budgetary resources in maintaining a sustainable agriculture throughout the EU, addressing important cross-border issues such as climate change and reinforcing solidarity among Member States, while also allowing flexibility in implementation to cater for local needs".

The widely presented strategic objectives and tasks assigned to the EU agriculture are to enable the assessment based on critical discourse analysis first applied to CAP by K. Erjavec, E. Erjavec and Juvančič, L. (Erjavec et al, 2009). A brief look into the EC's documents on agriculture shows that the key focus of the European Commission now is to justify the support for agriculture on the grounds of environmental concerns.

4. BALANCING THE FUTURE CAP – RETHINKING THE POLICY

Among the growing army of catchy phrases and socio-economic slogans used by experts of all walks of life, for at least a decade has been sustainable development. It always has been especially relevant to agriculture with its direct link to the natural environment and family farms still creating a bulk of the European farms. Yet, although the idea of sustainable development has been described to the detail it had never been actually applied in the agricultural and rural development policies. It always seemed to be too vague an idea to be quantified and seen as a real and achievable policy target.

The strategy "Europe 2020" is aimed at making a next attempt to the implementation of sustainable development in the field of agriculture and rural areas. This time it should be more specific in its basic goals. In case of agriculture it is reasonable to translate sustainable

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development into two simple and easy to operationalize objectives. They are food security and food safety.

The EU common agricultural policy is very strongly politicized. Its objectives and instruments are a result of a long policy game among a wide range of stakeholders with complex priorities and preferences. Policymakers chose not only paradigms and policy instruments but also the way the instruments are to be implemented, as they want to ensure that their accepted values and priorities are to be achieved.

Although Tinbergen-Theil's theory of economic policy does not allow for changes in the behavior of private sector it can be used to analyze the needed changes in CAP. This simplification is justified as the purpose of the paper is the discussion of the CAP's objectives and instruments and not the effects and efficiency of their implementation.

The problem with the application of the Tinbergen-Theil paradigm of economic policy to analyzing the CAP is the fact that the CAP's preferences are not well defined. Even most of its instruments leave much room for speculations on the preferences of policymakers.

This lack of clear policy aim can lead not only to lack of synergy and lower policy efficiency but also can result in too strong divergence in the development of agricultural sector. It would be advisable to build an intervention logic model for the objectives of the CAP and tasks assigned to the EU agriculture. Such an exercise should lead to naming a general objective of the CAP. It can be assumed that the outcome of this analysis would be the need for the CAP to ensure that the EU agriculture provides food security and safety. This assumption is more justified given the definition of food security. A definition worked out at the World Food Summit of 1996 names food security as a situation "when all people at all times have access to sufficient, safe, nutritious food to maintain a healthy and active life". Thus, the Treaty requirement that CAP leads to ensuring "the availability of supplies" and "that supplies reach consumers at reasonable prices" are included. Given the basic knowledge of economics and functioning of market forces it is obvious that the CAP must provide the farmers with support in case of market failure to ensure conditions that give the farmers needed incentives to provide such agricultural products. Moreover, the definition of food security clearly states that the ideas of food security and food safety are separate entities but that food security in its sense requires food safety.

Yet, as the concept of food security is a complex entity the agricultural policy itself cannot ensure it without involvement of other policies. Food policy is built on three pillars:

- Food availability: sufficient quantities of food available on a consistent basis.
- Food access: having sufficient resources to obtain appropriate foods for a nutritious diet.
- Food use: appropriate use based on knowledge of basic nutrition and care, as well as adequate water and sanitation.

Agriculture's responsibility is to provide sufficient quantities of food available on a consistent basis delivered at prices ensuring the consumers access to appropriate foods for a nutritious diet. Therefore, it would be advisable that the policy gives initiatives to produce agricultural products

that best serve the demands of adequate nutrition. It also makes it reasonable that the policy acts as catalyst for research on healthy nutrition and production of foodstuffs of the highest quality in terms of their value for a healthy diet.

Food security and food safety at the agricultural policy's level in the context of the EU challenges can simply be defined as:

1. Food security – ensuring that there are initiatives and conditions for the farmers to efficiently produce food in the quantities that can be marketed with no economic loss. This notion entails the need for an efficient and sustainable use of natural resources.
2. Food safety – ensuring that agricultural products and food are produced using methods that guarantee safety of this production and their high value for a healthy diet. This means that the research into methods of production and nutrition have to be supported.

This introduction is to show that the objectives and priorities of agricultural policy in the EU do not have to be mutually exclusive. The policy must present a clear and concise general objective and be tooled with policy instruments that undoubtedly lead to its achievement. In this context it is necessary to present the place of agriculture's competitiveness so that it can be proved that this priority is also included in the concept of long-term food security and safety. The objective of the EU agriculture's competitiveness at the international level is based on the fact that the EU now produces more food than it can consume. Even with significant changes in climatic condition it is expected to remain self-sufficient also under altered climate conditions.

Looking at the CAP from the perspective of classic theory of economic policy founded by Tinbergen and Theil, the problem with balancing the CAP is that apart from the lack of clear cut objective and determination of a desired shape of agricultural sector or final outcome of the CAP's implementation, the policy is not effective. This is not a surprise given lack of knowledge on the effect it is supposed to achieve. But even if we presume that the policy objectives are clearly stated, the effectiveness of CAP cannot be achieved at a current state. The effectiveness of a policy is defined as by N. Acocella and G. Di Bartolomeo: "an instrument is effective with respect to a target variable if changes in the instrument determine changes in the equilibrium value of that target; otherwise it is ineffective". It is questionable if the CAP's instruments apart from direct payments are strong enough to execute any changes significant at the EU level. As for direct payments in their current shape they only realize the objective of ensuring individual earnings of persons engaged in agriculture.

This suggests that the only way to successfully apply CAP as a tool of reaching desired targets is to empower direct payments with a restrictions and limitations that could alter the behavior of agricultural producers. Yet, it must be seen with caution as given the specific character of direct payments. The introduction of new restrictions can lead to a decrease in utilization of this instruments. The implementation of cross-compliance obligation has not significantly lowered the interest in this instrument. Therefore it can be assumed that there is still potential for reshaping direct payments to serve implementation of other CAP's objectives.

However, the findings of Post Keynesian theory of economic policy must be taken into account in the process of reshaping direct payments. This theory emphasizes "the need and

efficiency of quantitative, interventionist policies, yet it does not ignore the limitations of “controllability”; that is, the theory results in a strong plea for what might be termed “constrained feasibility” between the extremes of Cartesian “controllability” and Hayekian “nondecisionism.” This can be expressed as a “market participation theory of economic policy.” In addition, it is this critical knowledge about the limits to policy control, on one hand, and the acceptance of a quite different “pattern prediction” as compared to Walrasian and Hayekian economics, on the other” (Heise, 2009: 29). For the CAP it shows the need to consider the level of controllability.

Based on grounded theory approach, it can be stated that the common agricultural policy is highly limited in its ability to control. Moreover, it operates at a much higher level of uncertainty than other policies due to the variable weather conditions. Therefore, it is advisable to introduce any changes in the CAP only gradually. The starting point for a real reform of the CAP should be the clarification and ranking of policy objectives. This challenges for the EU development set out in the strategy “Europe 2020” should be a starting point for this process. The analysis of this strategy and EC’s documents on the functioning of CAP in the period 2014-2020 suggest that the issue of security and safety of food are a common part of all the objectives and priorities of the future CAP. Creation of the conditions for a production of food that is both of the highest quality and available at a volume fulfilling the needs of the EU citizens in a long-term requires taking into account the environmental considerations and concerns. It is therefore a mutually interwoven goal. Such conditions have to include a safety net for farmers with a strong emphasis on mechanism of risk management and supporting farmers in case of natural disasters and measures against market disturbance resulting from animal and plant diseases leading to loss of consumer confidence.

Moreover, the goals of security and safety must be treated as inseparable unit and the policy instruments cannot lead to outcomes that offer either one or another. The holistic approach is what the CAP instruments need most. They should be designed in such a way that they catalyze beneficiaries’ efforts to increase both viability of production and sustainable management of natural resources. In order to make such an approach operational advisory services and vocational training systems have to be strengthened so that they offer a holistic perspective on agricultural production and do not present competitiveness and sustainable management of natural resources as a trade-off case. Given the growing costs of fossil fuels and electricity persuading farmers to make their farms more energy effective and thus lower their negative impact on the environment more easy.

It seems that at the EC is well aware of the challenges and expectations facing agriculture and CAP. Especially in its document from 2010 it is visible that the relationship between long-term food security and sustainable management of natural resources is taken into account. Yet, the proposed policy instruments hardly show any consideration of this issue.

The proposed greening of the pillar I is just the prove of the illusionary makeover of the CAP. The three criteria presented in the regulation proposal have no actual value for the natural environment. According to the article 29 of the proposal farmers are entitled to receive payment

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for agricultural practises beneficial for the climate and the environment if they observe the following practices:

1. Have three different crops on their arable land where the arable land of the farmer covers more than 3 hectares and is not entirely used for grass production (sown or natural), entirely left fallow or entirely cultivated with crops under water for a significant part of the year.
2. Maintain existing permanent grassland on their holding.
3. Have ecological focus area on their agricultural area.

The proposal also specifies the crop diversification. The land covered with each of the three crops should not fall out of the limitations 5-70% of the whole arable land under the operation of a given farmer. There is no scientific justification for such thresholds. A more ecologically viable proposal would be to oblige the farmers to rotate the crops they plant on their land. As for the permanent grassland the reference year is supposed to be the year 2014. This means that farmers can still change the area covered by permanent grassland. It would be more rational if as a reference year a year in the past was chosen. In case of ecological focus area a minimum level of such area is set at 7% in each farm. This has also no scientific justification. Moreover, such areas will not create a unified area that could be used by animal to move and change their habitats. The most burdened by this criteria are going to be large farms that do not poses 7% of land such as terraces, landscape features, buffer strips or afforested areas, so they will have to devote some part of their productive land, which in turn can lead not only to their lower incomes but also can threaten the EU's food security.

Another prosed solution also decreases the potential impact of the greening is that the farms of less than 3 hectares are to be exempt from it. The exemption is justified at a level of reducing administrative burden and the cost of controls. Yet, from the ecological perspective it is not understandable.

The greening of direct payments is the most criticized and disputed part of the EC's proposal for the CAP reform. The idea of imposing the same criteria for this part of the direct payments is reasonable. Yet, the diversity of natural condition within the border of the European Union is too high to make it possible to set out criteria that can be contribute to more sustainable agricultural activity in the whole EU. Therefore, if the greening is to be ecologically viable and not too complex and costly for the member states' administration it the criteria must be more flexible and take into account natural endowments.

In case of the proposal for the pillar II (COM(2011)627) the assessment of its potential contribution to balancing food security and safety can be done only at a very general level as the proposal gives no details of the actual shape of the measures proposed. Yet, the fact that it offers hardly any new measures shows that to a high extend it will keep the current status quo. This means that EU rural development policy will have only limited impact on the achievement of the "Europe 2020" objectives. The pillar II should include only a special risk management measure that is planned to offer:

- financial contributions, paid directly to farmers, to premiums for crop, animal and plant insurance against economic losses caused by adverse climatic events and animal or plant diseases or pest infestation;
- financial contributions to mutual funds to pay financial compensations to farmers, for economic losses caused by the outbreak of an animal or plant disease or an environmental incident;
- an income stabilisation tool, in the form of financial contributions to mutual funds, providing compensation to farmers who experience a severe drop in their income.

Assuming that the specific implementation rules are beneficiary friendly and do not pose too much restrictions the instrument could serve as a vital tool in supporting safeguarding stability in agricultural sector and thus food security.

The EC's proposal also includes a wide range of environmental measures. Yet, most of them are targeted to a narrow group of potential beneficiaries so they impact will be limited although locally significant. The most important part of the environmental measures will still be the agri-environmental programmes. In the new programming period they are to be called agri-environment-climate. Yet, there is no mentioning of any novelties that could strengthen the impact of this instrument. Definitely, there is a pressing need to reinforce the impact of this policy instruments by including quantitative indices with the date for current level of them. This would not only enable the assessment of the progress made, but also it will serve as a justification for the implementation of these measures in the eyes of the public opinion and will legitimize them.

There seems not to be any interlink between the sustainable agriculture and food security in the EC's proposal for rural development measures. Yet, what is even more missing is the link between the quality of food and food security. Only measures that combine food security with its safety and conducting agricultural activities in a sustainable manner in all the three aspects of the sustainable development (that is: environmental, economic and social dimensions) can stand up to the challenges rightly identified by the European Commission.

5. CONCLUDING REMARKS

Each reform of the CAP ends up as a quasi-reform with no clear general objective and no reasonable way of explaining to the general public the need to support agriculture. It is highly striking and disappointing that to yet another reform proposal a following phrase fits absolutely well: “a misfit between the aspirations to simultaneously liberalise the agricultural sector while securing high international competitiveness and enhancing environmental and other quality oriented standards remains” (Juntti, 2006: 11). These words were written in 2006 in an assessment of the introduction of cross-compliance in the CAP. The greening and other elements of the current EC's proposal deserve the same opinion.

Although the challenges facing both the agriculture and rural areas have been correctly identified there is not enough political will to propose a radical change in the policy

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instruments offered by the CAP. Therefore, with only tiny cosmetic alterations the CAP will not be capable of tackling the challenges and contributing to the implementation of the strategy “Europe 2020”.

Recently at the Chairpersons Meeting for Agriculture and Environment Committees Danish Minister for Environment, Mrs. Ida Auken, stated that the current economic and financial crises are linked with the environmental crisis and that the agriculture has to stand up to the challenge and reinvent itself as a green sector. This statement rightly shows the extend of the task. Yet, in order to accomplish it we need bold policy instruments.

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