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On the consistency of CAP measures: Will European agriculture meet the challenges it faces?

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Abstract

The latest reform of the Common Agricultural Policy has just been accepted and now it is time for the implementation of the new measures. However, from a theoretical point of view, it seems that the CAP can hardly meet the challenges it faces due to the inconsistencies between the predefined challenges and the measures proposed to meet them. The aim of the paper is to systematically analyse the consistency between the challenges of European agriculture and the policy measures aimed at meeting them. It seems that not all measures are consistent with the challenges.

Keywords: CAP, challenges, measures, consistency

1. Introduction

The European Commission (EC) has finalised legislative proposals that set out the overall direction of CAP reform for 2014-2020. The proposals are presented in a complex economic and political situation, dominated at present by the Euro sovereign debt crisis, and including issues such as growing world population, changing lifestyles and diet, price volatility, economic and food crises and global food security, climate change and environmental degradation. It is evident that agriculture faces many challenges in the 21st century, especially to increase the production of and access to sufficient and high quality food for a growing world population with changing diet while at the same time massively improving the management and use of scarce natural resources.

To meet these challenges seems to require a radical change in the Common Agricultural Policy (CAP). However, the new reform package largely maintains the status quo and does not resolve the fundamental incoherence, illegitimacy and unsustainability of the CAP. The new measures ignore the facts that Europe is in its biggest crisis since the founding of the European Union and that there are several extremely urgent issues that need to be addressed now to avoid catastrophic problems in the upcoming years regarding food security, climate change and rural development.

The paper provides a conceptual analysis of the challenges European agriculture faces and checks for the consistency of these challenges with the latest reform measures. In other words, the aim of the paper is to check whether the new CAP helps European agriculture to meet the challenges it faces or not. Our paper is structured as follows. Section 2 shows the challenges and objectives of the CAP and analyses the inconsistencies between measures and challenges. Section 3 demonstrates some overall dilemmas for the CAP in the future, while Section 4 presents institutional factors determining the playing arena for the future CAP. The last section concludes.

2. Challenges and objectives of the CAP

The Communication of the European Commission published in 2010 identifies three key challenges for European agriculture (EC, 2010):

Food security. As the world's population is expected to grow to around nine billion by 2050, global demand for food will significantly increase, resulting in a measurable growth in world food production. The EU should be able to contribute to world food demand by preserving and improving its agricultural production capacity while meeting the high safety, quality and welfare

standards required by its citizens as well. In order to meet this challenge, the CAP has to stabilise incomes and markets as well as improve the international competitiveness of its agricultural sector and the functioning of the food supply chain in times of greater market uncertainty, increased price volatility and stagnating agricultural incomes.

Environment and climate change. Agriculture and the environment are inextricably linked. Farming practices can have beneficial (e.g. organic agriculture) or harmful (e.g. intensive agriculture) effects on the environment, while the provision of public goods can potentially offer several environmental benefits (e.g. biodiversity, climate stability, resilience to natural disasters, etc.). At the same time, climate change can have various effects on agriculture in the long run (e.g. flooding, drought, etc.) Therefore, the future CAP should help agriculture mitigate climate change through reduced greenhouse gas (GHG) emissions and various measures to increase production efficiency (e.g. energy efficiency, carbon sequestration, etc.).

Territorial balance. Agriculture is still an important sector in the rural economy, offering job possibilities and income to rural residents and generating many additional economic activities (e.g. food processing, tourism and trade). However, many territorial imbalances, mainly between Old and New Member States, exist in the EU. The CAP should tackle these imbalances by improving the vitality and economic potential of all the rural areas inside the EU.

Three main objectives are derived from these challenges, according to the Communication (EC, 2010):

Viable food production. In order to reach this objective, the future CAP should (1) contribute to farm incomes and limit their variability, (2) improve the competitiveness of the agricultural sector and enhance its value share in the food chain and (3) compensate for production difficulties in areas with specific natural constraints.

Sustainable management of natural resources and climate action. This objective also contains three elements: (1) enhancing sustainable production practices and securing the provision of environmental public goods, (2) encouraging green growth through innovation and (3) pursuing climate change mitigation and adaptation actions.

Balanced territorial development. The third objective is also made up of three policy sub-objectives: (1) supporting rural employment, (2) improving the rural economy and promoting diversification and (3) encouraging structural diversity in farming systems by improving conditions for small farms and developing local markets.

By thinking in terms of sustainability, the above-mentioned challenges can easily be transformed into economic, environmental and social challenges. In order to meet these challenges, various measures are proposed in the latest CAP reform. It is worth analysing whether these proposals are consistent with the challenges – if not, it is doubtful how the former contribute to the latter.

2.1. Consistency of economic challenges and measures

The most important economic challenge for the CAP in the future is to secure food supplies.

This challenge is to be met via various measures among which probably the most important is the continued provision of direct payments. Established in 1992 and significantly changed in 2003, direct payments are now decoupled from production and pertains to the ‘green box’ (non-distorting subsidy) of the WTO. Europe spent 70% of the CAP budget to direct payments in 2012 (EC, 2013), aiming to stabilize incomes of farmers.

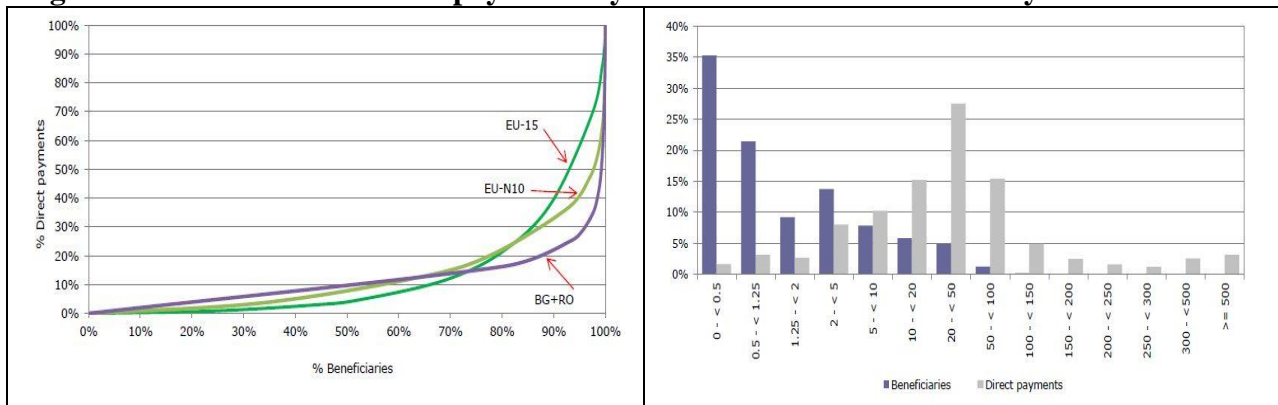
Despite their obvious importance to European farmer accounts, the vast majority of the professional literature analysing the CAP considers that direct payments are well past their sell-by date. Swinnen (2009), for instance, argues that **Single Farm Payments are not effective** in any defensible dimension: (1) Agricultural employment is still decreasing despite large and increasing direct support; (2) the majority of farm household incomes come from off-farm sources, reflecting improved integration of rural areas and markets with the general economy; (3) the distribution of support is very uneven amongst farm sizes (and types and regions), with those perhaps most deserving or needing support receiving the least; (4) most support is dissipated to input suppliers and landowners, since payments are based on historical rights and linked to land use; (5) cross compliance is either largely ineffective or impossibly expensive as a means of paying for agriculturally-related public goods (conservation, amenity, recreation and environmental (care) goods and services).

Swinnen (2009) well summarises the arguments that improvements in farm incomes due to support are temporary, which both history and economic logic demonstrate. Competition in the industry soon results in the revenue increase being capitalised in the value of farm assets, or being spent on increased costs of production. In either case, market competition ensures that total production costs will increase to match the supported increase in revenue. In effect, the benefits of support are frozen into higher costs for the sector and its businesses. Entrants to the supported industry have to purchase or rent their farm assets and pay the additional costs generated by the support, and are, consequently, no better off with the policy than they would have been without it. Incomes in the industry continue to be determined largely by the earnings available elsewhere and outside the industry. But, by the same token, removing existing support is especially damaging to new entrants, since many of their expenditures are based on and cannot be justified without the support. Farmers, and thus their industry and political representatives, have become dependent on, if not addicted to continued support.

Meanwhile, there is no evidence that farm households in industrialised OECD countries have systematically lower incomes than other households, so policies to support incomes across the whole sector are unjustified (Swinnen, 2009). Direct payments are neither equitably distributed by farm size, nor by geographical location (Figure 1). The 80/20 rule applies – approximately 80 per cent of the support goes to 20 per cent of farmers (recipients). Small farmers, especially, are handicapped in many ways. Though they are eligible for direct payments, due to the small farm size and administrative procedures, most receive marginal amounts or do not even participate in the system. As Zahrnt (2009) and others have also emphasised, payment rates per hectare are also widely dissimilar, ranging from €500+ in Greece to €174 in Portugal. Furthermore, following the EU Copenhagen agreement, direct payments were introduced at lower initial rates in the New

Member States (NMS), which have still not reached the level of EU15 in Romania, Bulgaria and Croatia. However, the EU10 reached the 100 per cent payment level in 2013. Indeed, the NMS complemented for the transitional period of 10 years EU-funded direct payments with national supplements to make good the difference between their own payment rates and those of the Old (and largely richer) Member States.

Figure 1: Distribution of direct payments by member state and beneficiary in 2012



Source: EC (2013)

Based on these critiques, the 2013 CAP reform changed the former system of direct payments and introduced various novelties (e.g. greening, small farmers scheme, internal and external convergence, active farmers, etc.). **However, it seems that even the modified system of direct payments is not consistent with the challenge of increased food security.**

First, as the current system of decoupled direct support suggests, a farmer need not even produce to receive a fixed income. **If a farmer does not produce agricultural commodities, it is hard to imagine how he or she contributes towards ensuring global food security.** Consequently, stabilising farmers' incomes does not necessarily mean guaranteeing food security, despite the fact that food security still remains the Commission's major reason for maintaining farm income support. By seeking to stabilise all farmers' incomes, current direct payments seem to focus on social and environmental issues instead of focusing on enhancing the competitiveness of farms. Second, greening is also against food security – by introducing super-cross-compliance type measures (Matthews, 2011), competitiveness and profitability of farmers are decreasing. Moreover, many farmers treat ecological focus areas as a resurrection of set-aside abolished in 2008, while diversification of crops is fully against economies of scale (Matthews, 2011). Third, the maintenance of coupled subsidies might help reaching food security in specific regions, though the magnitude of its impact is doubtful. Fourth, specific programmes for small scale farmers, on the one hand, decrease administrative costs of small farms, though on the other hand, it does not encourage creating efficient scales and support keeping the land price high. Fifth, redistribution of direct payments helps decreasing inequalities, though its extent is dubious.

On the whole, it is pretty evident that problems raised above are treated by the new system of direct payments but not solved. It is an interesting question whether direct payments will exist even after 2020.

Besides direct payments, according to the EC (2010), food security should be reached via the stabilization of agricultural markets. It is a serious concern for the future whether the CAP can really stabilize agricultural markets. The economic and food crisis of 2008 and 2011 highlighted that the issue of food security, which seemed to have been already solved since the 1970s, is now back to the policy agenda. Extreme price volatility, experienced in global markets since 2008, has serious consequences for the stabilisation of agricultural markets. Price volatility will remain at a generally higher price level.

In addition to the stabilization of farm incomes, the European Commission seeks to increase competitiveness of European agriculture, thereby meeting the challenge of global food security. However, the way doing so also has some caveats. First of all, competitiveness enhancement of agriculture pertains to the second pillar of the CAP, though some elements (market stabilization, direct payments, etc.) will remain in the first pillar. It is a question, therefore, what coherence would exist between the two pillars to target this issue.

Enhancing competitiveness has implications for trade policy. EU agriculture as a whole is required to compete in the world market, and trade policy basically determines the way it does so. In order to enhance the competitiveness of its farmers, the EU has many trade policy tools, from increasing import tariffs to banning imports of specific agricultural products coming from outside the Community, but these options are not respected by the WTO. Competitiveness can also be strengthened by further increasing subsidies to farmers, thereby reducing their already high costs of production, though this again may not be the best solution in the long run. Instead, the future CAP should realise that the competitiveness of its farmers is decided on the world market, and therefore targeted programmes for competitiveness enhancement are needed.

Increasing European food safety standards are also against the competitiveness of EU agriculture. Cross-compliance, greening requirements as well as plant and animal welfare measures imply additional costs for European farmers compared to their third country counterparts. Therefore, it is dubious how the CAP, based on high standards, will increase competitiveness in the long run. Moreover, **GMO issues are also on the table** when talking about agricultural competitiveness in Europe. The question here is evident: will Europe allow GMO crops to be produced or shall we maintain policies against GMOs? As the share of genetically modified products is increasing in world trade, agricultural competitiveness is largely determined by the decision on their use.

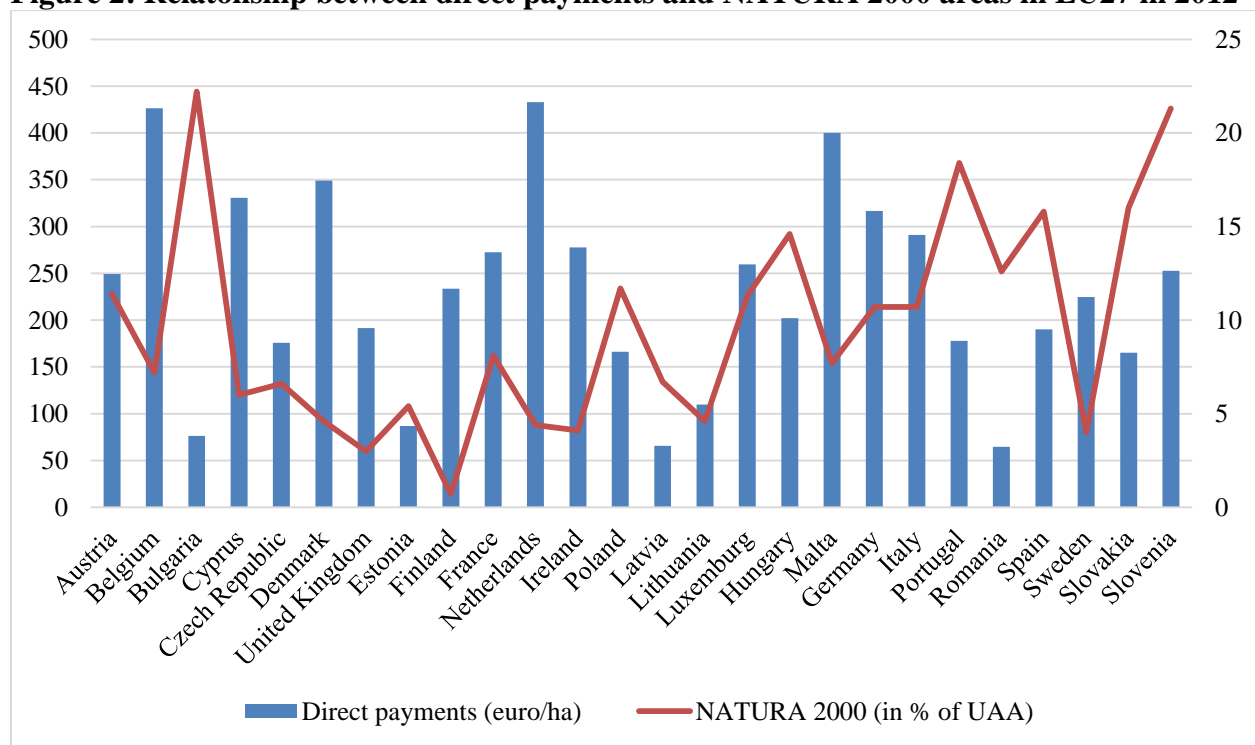
2.2. Consistency of environmental challenges and measures

The CAP are faced with numerous environmental challenges, including, inter alia, GHG emissions and climate change, soil depletion, water/air quality, habitats and biodiversity. These challenges are best tackled by focusing on **the sustainable management of natural resources and climate action** with three-sub-objectives: sustainable production practices and the provision of environmental public goods, green growth through innovation and climate change mitigation and adaptation actions (EC, 2010). **In practice, the latest CAP reform elaborates greening measures, while green growth and climate change mitigation and adaptation actions seem to remain high-flown rhetoric.** However, still greening measures have many deficiencies.

First, linking direct payments to the provision of public goods is an illogical conception. Since 1992, direct payments have been given for many reasons but it is clear that the system is

still based on the reference yields of 1986-1990 (2000-2002 for the new members). Thereby the new conception implicitly assumes that those receiving a high amount of direct payments (e.g. those had high yields in the reference period) provide numerous public goods, which is surely not the case. As evident from Figure 2, there is no clear relationship between direct payments and NATURA 2000 areas (as a proxy for measuring agri-environmental status). We can not state that those regions with higher environmental values get more direct payments. Actually, correlation between the two indicators is negative at the EU27 level (-0.29, own calculations).

Figure 2: Relationship between direct payments and NATURA 2000 areas in EU27 in 2012



Note: Direct payments are calculated per hectare (based on UAA data).

Source: Own (Authors') composition based on EC (2013)

Second, the Communication seems to neglect the fact that one of the biggest problems with the provision of environmental public goods in agriculture lies in the insufficiency of measurement methods. We cannot measure – aside from making educated guesses – the value of a landscape or the value of biodiversity, and it is unclear what kind of methods the Commission proposes for solving this problem. It is also questionable as to whether we have a common value for public goods for Europe and it is very doubtful that the same public goods policy should apply to Old and New Member States, still less for each and every region or farm. Moreover, without knowing the proper indicators and measurement methodology, the efficiency of the delivery of environmental public goods can hardly be evident. Questions arise as to who will evaluate (and on what basis) whether public money spent on the provision of public goods has led to the achievement of the policy's aims or not. Going further, if we can not measure the outcome, or Member States are not willing to pay for it from the national budget, it is doubtful that taxpayers will understand exactly what they are paying for.

Third, **the provision of public goods seems to require significant institutional and administrative background for the management of these programmes.** It is doubtful that these programmes can be well-administered without a measurable increase in bureaucracy both at the EU and national level. However, such an increase would result in cost increases and work against the “cutting the red tape” principle, as indicated in the Commission (EC, 2010).

Fourth, the coherence between greening and the current agri-environmental programmes remains questionable. It is not clear, for instance, whether subsidies from the first pillar are more efficient than those from the second. As the principle of equivalence, developed by the latest CAP reform, suggests, farmers participating in agri-environmental programmes automatically meet greening requirements, implying that second pillar instruments are better serving the environment than first pillar ones. However, the first time in the history of the CAP, the share of first pillar funds are increasing at the expense of the second. Based on these problems, another logical question arises as to what effect the “greening component” would have on the expenditure balance between the two pillars.

Innovation, green growth and climate change mitigation are also important objectives of the CAP, though the 2013 CAP reform have not elaborated measures in this regard. We are not aware of the exact places and the magnitude of impacts of climate change, for instance, nor is it clear how the CAP would tackle the obvious challenges in this regard. Although the fifth priority of the second pillar is related to climate change, overly general objectives appear here without details.

2.3. Consistency of social challenges and measures

The objective of balanced territorial development is planned to be tackled by supporting rural employment, improving the rural economy and promoting diversification and encouraging structural diversity in farming systems by improving conditions for small farms and developing local markets. Measures elaborated for reaching these aims are the Common Strategic Framework, the new rural development priorities, the simplification of rural development subsidies, the introduction of minimum spending requirements (agri-environment 30%, Leader (or CLLD) 5%) and the introduction of European Innovation Partnerships.

Although these measures bring new concepts to the European rural development policy, several concerns emerge regarding their effectiveness. First and foremost, it is still not clear what rural development is about in the CAP. On the basis of the former four axes, the current six priorities and their associated funding, rural development is mainly about agricultural competitiveness enhancement and agri-environmental support, while classical rural development seems to be side-tracked. Increasing quality of life, creating jobs, alleviating rural poverty, decreasing the urban-rural income gap or developing rural infrastructure remain just objectives in slogan without any clear measures for reaching them. This argument is also strengthened by the fact that around 20% of the CAP budget is spent on rural development, while 20% of the rural development budget is spent on classical rural development – all this ends up in 4% of the CAP is spent on core rural development issues.

The exact place of rural development within the EU policy framework is neither clear. On the one hand, the CAP has recently expanded its traditional agricultural focus to a broader array

of rural actors via Axis 3 and 4 (territorial approach, though many measures of the other axes (sectoral approach) also have a number of second order effects (enhancing local agricultural employment, tourism, etc.), retaining people in rural areas. This process strengthens the retention of rural development policy inside the CAP together with the fear that cohesion policy would be more likely to focus on urban centres rather than rural areas. On the other hand, there are also strong grounds for arguing that rural development should be reallocated into Cohesion Funds. One of the strongest arguments, put forth by DG Regio, is that such a shift would bring increased coherence in rural development at the EU level. Coordination of the various EU Funds seems to have caused difficulties for many Member States concerning their management, thereby causing the lack of synergies and a number of overlaps between them. **Given the birth of the Common Strategic Framework, it seems that rural development will still be funded by the CAP, though the effectiveness of rural development programs is a key question for the future.**

Table 1 summarises the challenges, objectives and measures discussed above.

Table 1: Challenges, objectives and measures of the CAP 2014-2020

Challenges	Objectives	Measures
Food security	<ol style="list-style-type: none"> 1. Farm income support and limitation of variability 2. Competitiveness and value share enhancement of agricultural sector 3. Compensation in areas with specific natural constraints 	<ol style="list-style-type: none"> 1. Direct payments 2. Stabilisation of agricultural markets 3. Competitiveness enhancement
Environment and climate change	<ol style="list-style-type: none"> 1. Sustainable production practices and the provision of environmental public goods 2. Green growth through innovation 3. Climate change mitigation and adaptation actions 	<ol style="list-style-type: none"> 1. Enhance the provision of public goods via the greening component of direct payments 2. Promote green growth through innovation 3. Pursue climate change mitigation actions
Territorial balance	<ol style="list-style-type: none"> 1. Support for rural employment 2. Enhance and diversify the rural economy 3. Improve conditions for small farms and develop local markets 	<ol style="list-style-type: none"> 1. Support rural employment 2. Improve the rural economy and promote diversification 3. Allow for structural diversity in farming systems

Source: Own composition

3. Overall dilemmas

Regarding the future of the CAP, several general dilemmas emerge, having impacts on economic, environmental and social measures. **First of all, it is questionable to what extent national agricultural policies will increase their role inside the CAP.** Several signs of the latest reform indicate that member states get more freedom in the implementation of the CAP (distribution of the different components of direct payments, defining national rural development priorities, etc.) This is an important issue as different national implementations might alter the overall consistency between challenges and measures.

The second dilemma is raised in connection with the structure of the two pillars. Although the first pillar has traditionally dealt with agricultural markets (and later with direct payments) and the second with rural development, many measures are questioning this division of tasks (e.g. greening in the first pillar, payments for young farmers and LFA from both pillars, competitiveness enhancement from the second pillar, etc.). A consistent CAP would require a clear division of work.

Last but not least, it is still questionable whether the ‘one size fits all’ approach is working for the CAP. Can we apply the same policy for different regions? The current CAP has been planned for meeting the needs of the founders and old member states, though needs of the new members are hardly touched upon (Gorton et al., 2009). This issue might also alter the CAP’s capacity to meet the challenges European agriculture faces, especially considering possible new accession rounds.

4. The role of institutional factors

Various institutional factors will also determine whether European agriculture will meet the challenges it faces. In designing the CAP, factors outside agriculture should also be taken into account.

The first institutional factor is EU’s overall development strategies (currently the Europe 2020), **determining the playing arena for the CAP.** European agriculture can contribute to the five priorities defined by Europe 2020 in many ways. On the one hand, the promotion of renewable energies and the support for agri-environmental programmes will help decreasing the emission of greenhouse gases. On the other hand, supporting the local economy and job creation might help increasing rural employment and alleviating rural poverty. Furthermore, the promotion of research and development in agriculture also help innovation.

The second important institutional factor is the budget of the European Union, basically determining the possibilities of the CAP in the future. Although the share of agriculture has decreased in the current financial period (2007-2014) compared to previous ones, distribution of funds between pillars has changed. Therefore, any decisions on the budget will have an impact on how effectively European agriculture can meet the challenges she faces.

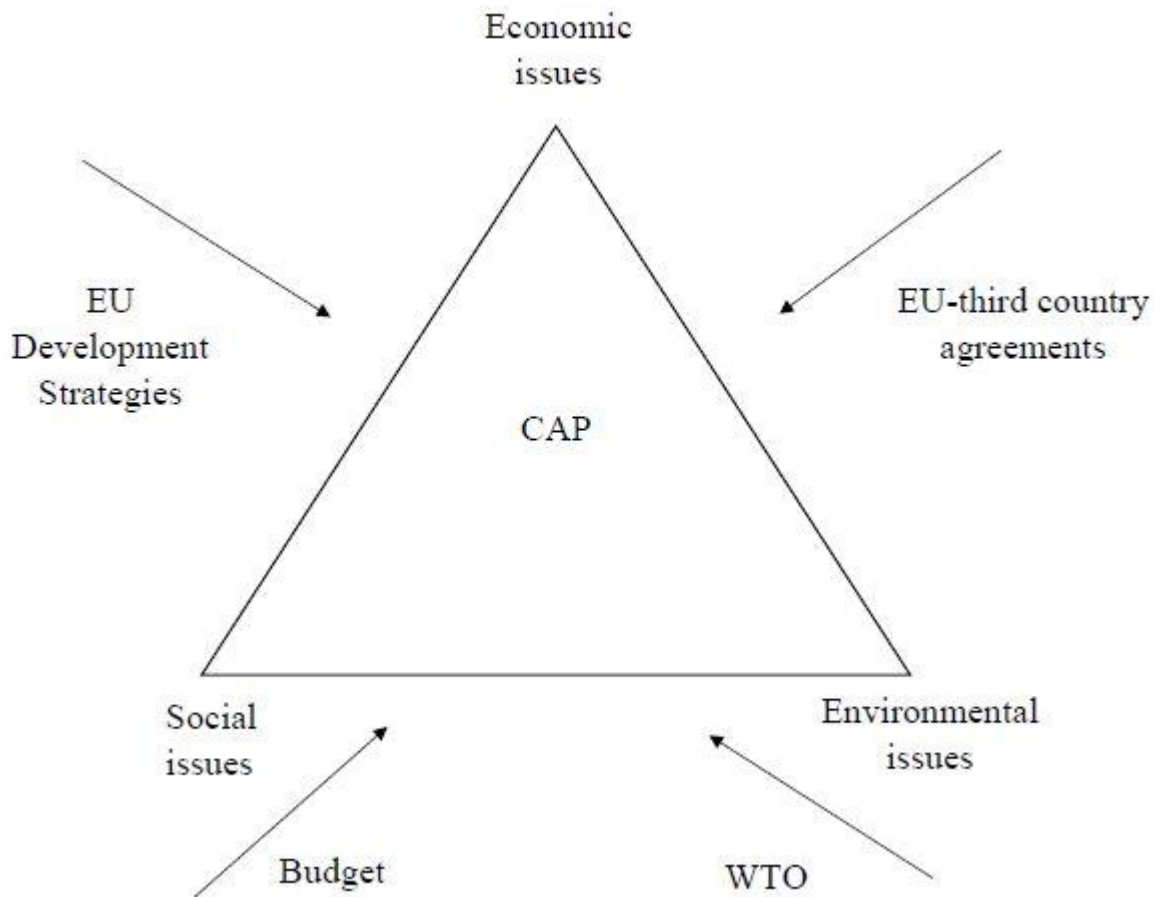
The third institutional factor is the WTO and the international trade talks. Although the Doha round is still on table since 2001, WTO trade negotiations have always affected the history

of CAP. The cancellation of export subsidies, for instance, might cause problems in the system of the CAP.

Last but not least, trade agreements of the EU with third countries also play a role in the effectiveness of the agricultural policy in Europe. If the EU signs new agreements with third countries, these might have agricultural consequences (like the free trade agreement signed with Canada). This factor also contains possible further enlargements of the EU, implying new measures for the current system consisting of 28 member states..

Figure 3 summarises institutional factors for the CAP. The actual strength of internal and external effects will determine the magnitude of the triangle (the playing arena for the CAP), while edges show the three challenges (priorities) for the future CAP.

Figure 3: Institutional factors affecting the future CAP



Source: Authors' composition

A further advantage of Figure 3 can be understood if we operationalize the three sides of the triangle with appropriate indices – this can end up in an evaluation of agricultural policies of different member states by showing them as a single point inside the triangle. In other words, the

operationalization of Figure 3 gives a possibility to compare agricultural policies in Europe by highlighting different priorities of member states.

5. Conclusions

The CAP is more than 55 years old but is still the most common policy in Europe. However, it is evident that its principles are coming from the 1960s, while the world has totally changed during the previous decade. Based on the arguments of the article, it seems that European agriculture will hardly meet the challenges it faces as there exists just a partial consistence between agricultural challenges and measures. A detailed analysis of measures together with proposals how to better target the challenges is very much needed for the CAP in the long run.

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