CAP towards 2020: meeting the food, natural resources and territorial challenges of the future

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PURPOSE: to present options for reform in order to meet the challenges facing the Common Agricultural Policy towards 2020.

BACKGROUND: in preparation for this Communication, the Commission organised an extensive public debate earlier in 2010 that concluded with a conference in July 2010.

The Council discussed the reform through four successive Presidencies whilst the European Parliament (EP) adopted a resolution on the CAP post-2013.

In the course of these discussions, the overwhelming majority of views expressed concurred that the future CAP should remain a **strong common policy structured around its two pillars**: a **greener and more equitably** distributed first pillar and a second pillar focussing more on **competitiveness and innovation, climate change and the environment.**

In broad terms, the views expressed recommended the following strategic aims:

- to preserve the food production potential on a sustainable basis throughout the EU, so as to guarantee long-term food security for European citizens and to contribute to growing world food demand, expected by FAO to increase by 70% by 2050;
- to support farming communities that provide the European citizens with quality, value and diversity of food produced sustainably, in line with our environmental, water, animal health and welfare, plant health and public health requirements;
- to maintain viable rural communities, for whom farming is an important economic activity creating local employment; this delivers multiple economic, social, environmental and territorial benefits.

CONTENT: the Commission's response to the debate on the future CAP comes in the form of this Communication, which outlines options and launches the debate with the other institutions and with stakeholders. The legal proposals will be presented in 2011.

1) THE NEED FOR REFORM : the CAP has evolved, but further changes are necessary in order to respond to the new challenges notably:

- to address rising concerns regarding both EU and global **food security**;
- to enhance the **sustainable management** of natural resources such as water, air, biodiversity and soil;
- to deal with both the increasing pressure on agricultural production conditions caused by ongoing **climatic changes**, as well as the need for farmers to reduce their contribution to GHG emissions, play an active role in mitigation and provide renewable energy;
- to retain and enhance competitiveness in a world characterized by increasing globalisation, and **rising price volatility** while maintaining agricultural production across the whole European Union;
- to make best use of the diversity of EU farm structures and production systems, which has increased following EU enlargement, while maintaining its **social, territorial and structuring role;**
- to strengthen **territorial and social cohesion** in the rural areas of the European Union -notably through the promotion of employment and diversification;

- to make CAP support **equitable and balanced** between Member States and farmers by reducing disparities between Member States taking into account that a flat rate is not a feasible solution, and better targeted to active farmers;
- to pursue the **simplification of the CAP implementation procedures** and enhance control requirements and reduce the administrative burden for recipients of funds.

The three main objectives for the future CAP would thus be:

Objective 1:viable food production: (i) to contribute to farm incomes and limit farm income variability; (ii) to improve the competitiveness of the agricultural sector and to enhance its value share in the food chain; (iii) to compensate for production difficulties in areas with specific natural constraints because such regions are at increased risk of land abandonment.

Objective 2: sustainable management of natural resources and climate action: (i) to guarantee sustainable production practices and secure the enhanced provision of environmental public goods; (ii) to foster green growth through innovation; (iii) to pursue climate change mitigation and adaptation actions.

Objective 3: balanced territorial development: (i) to support rural employment and maintaining the social fabric of rural areas; (ii) to improve the rural economy and promote diversification; (iii) to allow for structural diversity in the farming systems, improve the conditions for small farms and develop local markets.

2) FUTURE INSTRUMENTS: all potential options of the future CAP imply changes in present CAP instruments. The Communication explores how instruments could be defined:

Direct payments: the adaptations necessary for the direct payment system relate to the redistribution, redesign and better targeting of support, to add value and quality in spending. There is widespread agreement that the distribution of direct payments should be reviewed and made more understandable to the taxpayer. The criteria should be both economic and environmental.

The future of direct payments to be granted to active farmers could be based on the following principles, taking up the concept proposed by the European Parliament:

- basic income support through the granting of a basic decoupled direct payment, providing a uniform level of obligatory support to all farmers in a Member State (or in a region) and an upper ceiling for direct payments received by large individual farms ("capping");
- enhancement of environmental performance of the CAP through a mandatory “greening” component of direct payments by supporting environmental measures applicable across the whole of the EU territory, for actions in the form of simple, generalised, non-contractual and annual environmental actions that go beyond cross-compliance and are linked to agriculture (e.g. permanent pasture, green cover, crop rotation and ecological set-aside);
- promotion of the sustainable development of agriculture in areas with specific natural constraints by providing an additional income support to farmers in such areas in the form of an area-based payment;
- voluntary coupled support may continue to be granted, within clearly defined limits to take account of specific problems in certain regions where particular types of farming are considered particularly important;
- a simple and specific support scheme for small farmers should replace the current regime in order to enhance the competitiveness of and contribute to the vitality of rural areas and to cut the red tape.

Market measures: the public debate revealed a broad consensus on keeping the overall market orientation of the CAP while also maintaining the general architecture of the market management tools. The 2009 dairy market crisis highlighted the important role that existing mechanisms play in supporting

the market in times of crisis. However, some specific adaptations appear necessary, most notably in streamlining and simplifying instruments currently in place, as well as in introducing new policy elements with respect to the functioning of the food chain.

Rural Development: there are strong calls for the policy to continue to fully integrate the constraints and opportunities of the environment and climate change. Within this framework, **environment, climate change and innovation** should be guiding themes that steer the policy.

For the policy objectives to translate into results on the ground, effective delivery mechanisms are of paramount importance. A common strategic framework for EU funds may be envisaged. In addition, a risk management toolkit should be included to deal more effectively with income uncertainties and market volatility.

It is also essential to further strengthen and simplify the quality (including organic farming) and promotion policies in order to enhance the competitiveness of the agricultural sector.

3) BROAD POLICY OPTIONS: the Communication presents three broad policy options, indicative of potential paths whose impact will be analysed before final decisions are made. All three options are based on a two-pillar structure (with a different balance between pillars).

Option 1: introduction of further gradual changes to the current policy framework. This option would focus on adjustments and improvements in the area of equity in the distribution of direct payments between Member States. It would ensure continuity and stability with the current CAP, thus facilitating long-term planning for operators along the food chain.

Option 2: make major overhauls of the policy in order to ensure that it becomes more sustainable, and that the balance between different policy objectives, farmers and Member States is better met. This option would imply greater spending efficiency and greater focus on the EU value added.

Option 3: a more far reaching reform of the CAP with a strong focus on environmental and climate change objectives, while moving away gradually from income support and most market measures.