Modernising and Simplifying the Common Agricultural Policy: drivers, challenges and priorities

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Tassos Haniotis
Director
AGRI.C - Strategy, Simplification and Policy Analysis
European Commission

#FutureofCAP
Outline of issues covered

1. The outcome of the CAP reform process at a glance...

2. ...some new global and policy challenges...

3. ...and the broader policy questions around them
The long drive of CAP reform...

Source: DG AGRI.
...bridged the gap between EU and world prices...

Source: AGRI calculations based on European Commission AGRI and OECD data.
...with all the pros and cons this brings...

Source: DG Agriculture and Rural Development calculations based on ESTAT and OECD/FAO data.
...and turned the EU from major agro-trade player...
...in a rapidly expanding world trade environment...
...into a net agro-food exporter...

EU agricultural exports and imports 2005-15 (in billion €)

Source: COMEXT.
...while providing **relative** income stability...

**EU and US nominal farm income (2010=100)**

*Source: AGRI calculations based on ESTAT and ERS/USDA data.*
... and some positive environmental externalities

Source: AGRI calculations based on ESTAT data.
EU agricultural productivity grows slowly...

Productivity growth key to meet challenge
- ...of feeding more people...
- ...feeding them better nutritionally...
- ...and doing so in a resource-constrained world

Annual TFP growth in the EU is at 0.8%
- ...with main productivity gains from labour outflow...
- ...substituted by capital prior to economic crisis
- ...but now growing without increasing capital inflow

EU-N13 exhibit higher productivity growth
- ...but from lower starting level...
- ...with some labour definition adjustments...
- ...and higher investment
...with EU farm income evolution pointing at challenges...

**EU agricultural income (nominal terms)**

![Graph showing EU agricultural income from 2000 to 2015](source)

*Source: EUROSTAT*

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Source: AGRI calculations based on ESTAT data.
...especially in the EU's farm cost structure

**Cost Structure**

- Taxes
- Interest
- Labour
- Energy
- Fertilisers
- Other costs
- Rents
- Feedingstuffs
- Plant/animal protection
- Seeds

**Revenue Structure**

- Other subsidies
- Product subsidies
- Non-agricultural secondary
- Agricultural services output
- Animal output
- Crop output
- Crop output

Source: AGRI calculations based on ESTAT data.
Summarising the debate

Achievements of the CAP reform path

• Bridging the gap between world and EU farm prices, thus increasing competitiveness
• Turning the EU from a major trade player for both exports and imports into a net agro-food exporter
• Providing relative income stability within a very volatile income and price environment

Shortcomings of the CAP reform path

• Despite progress, the environmental performance of EU agriculture requires further improvement
• Productivity growth is essentially driven by the outflow of labour, and less by research or innovation
• The degree of fairness, "greenness" and simplicity of the CAP are still hotly debated

Drivers and future challenges

• The changing commodity, economic and price environment
• The changing global trade environment
• New climate change, environmental and broader sustainability priorities
Main issues for the future CAP debate:
public money for private and/or public goods?

Source: DG AGRI.
The trend in real commodity prices observed till 2011...

...has dramatically changed in recent years

The "greening" architecture of the CAP...
...raised questions on its complexity

MODERNISATION

2\textsuperscript{nd} layer of agri-environmental measures
Question: Which criteria to link to 1\textsuperscript{st} layer?

1\textsuperscript{st} layer of agri-environmental measures
Question: Mandatory or voluntary?

Cross compliance
Question: Only regulatory elements included?

SIMPLIFICATION

Research
Innovation
Extension

Control
Results
Performance
On tensions, synergies and targets

Tensions that the future CAP has to address

• The economy versus the environment – and the impact of cost pressure on environmental ambitions
• Subsidiarity versus simplification – especially with respect to EU value added priorities
• Jobs versus growth – the difficult, but also promising impact of new technologies on agriculture

Synergies that the future CAP has to develop

• Find the right balance of support between the private and the public good – both face market failures
• Redefine the balance between EU, MS and farm responsibilities – to simplify and avoid policy failures
• Address jobs and growth challenges in rural areas and in the food chain – to enhance resilience

Main questions that the future CAP has to reassess and address

• Should support focus on the output side (quantity, price, revenue): what to support, and how?
• Should support focus on the input side (capital, land, labour): what to support, and how?
• Answering the above are preconditions to address, in the appropriate time, the big unknowns
Issues, challenges, context

Questions on old persisting issues

• *Income support* (logic, distribution, capitalisation) still questioned, yet evidence is very often ignored
• Despite two parallel systems of *DPs* in place, still very weak agronomic or economic *specificity*
• *Some support measures* often *contrast an EU added value* logic with its exact opposite

Questions on current and emerging challenges

• *Better targeting* requires a clear choice of the main target – is it the farm or its land?
• *Shift towards performance* requires a fundamental rethinking of control logic (what, why, how)
• *Technologies* (especially EU-made ones) provide major opportunities, yet much resistance in use

Thinking within context – of emerging drivers and challenges

• *The CAP is a vehicle for addressing opportunities and challenges for climate and the environment*
• Quantifying *CAP’s wider contribution on jobs and growth* is difficult, identifying this role is clearer
• *Bottlenecks in the food chain* provide opportunity to refocus (some) policy responses
Reports and data available at:

http://ec.europa.eu/agriculture/index_en.htm


https://ec.europa.eu/agriculture/events/2016-outlook-conference_en

http://ec.europa.eu/agriculture/statistics_en

http://ec.europa.eu/agriculture/cap-indicators_en

https://ec.europa.eu/agriculture/consultations/cap-modernising/2017_en

Thank you for your attention!