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## **THE FUTURE CAP POST 2020**

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## INTRODUCTION

All European citizens depend and rely on a well-functioning and competitive agricultural sector that provides safe, quality, nutritious food produced sustainably throughout the EU territory. The society also demands food being produced in a manner that protects the countryside, the environment, the welfare of animals, enhances biodiversity and contributes to combat climate change. Family farms, agricultural cooperatives and other agricultural undertakings in all their diversity play a key role to achieve these objectives.

This also has the support of a majority of citizens as reported by a Special Eurobarometer Survey<sup>1</sup> that looked at the relationship between Europeans, agriculture and the CAP. Nine out of ten respondents indicated that agriculture and rural areas were important for their future. An overwhelming majority of 87% were against any decrease of the CAP budget, with 45% demanding an increase.

The CAP is, and must continue to be, the policy that supports European farmers to deliver an adequate supply of food as well public goods thus generating benefits for citizens and consumers. Furthermore agriculture and forestry can also contribute to meet the Climate and Energy targets in providing renewable and climate friendly raw materials. The CAP also contributes to a stable rural environment and employment for the 40 million people working in the agri-food chain, at a time where the EU faces a number significant challenges.

The recent crisis have clearly showed that the policy tools in the current CAP are not sufficiently adapted to the market conditions, hence the need to modernise the CAP. In these challenging times, a truly strong and common CAP can contribute not only to strengthen Europe but also to contribute to the priorities of the Juncker Presidency (e.g. jobs and growth). The Commission President himself outlined his support at the 2016 Agricultural Outlook Conference: “Europe will always stand by its farmers!”

Modernising the CAP also means developing strong synergies with other policy areas such as research and the digital single market agenda. New advances and innovation uptake and use will strongly drive growth & development in the agricultural sector and contribute to improve the sustainability, viability and competitiveness of the sector. Developments in new information and communication technologies (ICT), broadband infrastructures and access and digitalisation are particularly relevant to improve the sector’s performance.

Simplifying the CAP must go beyond the current simplification exercise by Commissioner Hogan and deliver policy measures that are simple, effective, and easily implementable by farmers.

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<sup>1</sup> See Special Eurobarometer 440 Report “Europeans, Agriculture and the CAP” [COM(16)35 (rev.1)], published January 2016.

## **1. OBJECTIVES OF THE CAP**

In earlier discussions<sup>2</sup> Copa and Cogeca have agreed that the current objectives of the CAP as established under article 39(1) of the TFEU remain equally relevant today.

Agriculture is, and must continue to be, at the core of the European Union as a strong, common and adequately financed policy. Common rules and common financing are fundamental to secure a well-functioning Single Market and prevent distortion of competition whilst taking into account the diversity of European agriculture. In this context any renationalisation of the CAP is unacceptable.

Farmers, unlike any other economic sector, play a vital role in providing food as well delivering territorial, environmental and social objectives, as clearly recognised by the 2014 Council declaration on the multiple objectives of agriculture.

The CAP must continue the market orientation from earlier reforms. However it must be recognised that the market alone will not deliver and adequately remunerate these multiple objectives. The fact the share of farmers' income from the market has been declining as result of the difficult market situation and an underperforming food supply chain makes the maintenance of CAP support even more relevant. In this context, it is necessary to improve and further develop market safety nets in order to curb the impacts on farmers income of market volatility.

This is even more relevant in a period where the urban/rural gap is increasing and it is necessary to ensure financial solidarity so as to guarantee economic and social cohesion all across the EU.

## **2. IMPORTANCE OF A STRONG CAP**

Copa and Cogeca call for a strong, common and adequately financed CAP that support farmers delivering food security in the EU as well as providing safe, quality, nutritious food produced in a sustainable manner.

The CAP also contributes to a stable rural environment and employment for the 40 million people working in the agri-food chain, at a time of severe unemployment in the EU.

The geo-strategic importance of the agricultural sector must not be overlooked as farmers are the ones producing food for consumers in the EU and in third countries.

Farmers are indeed the first producers of food. In addition the CAP must ensure a strong, economically viable and competitive agriculture all across the EU, for the benefit of consumers and farmers alike.

Copa and Cogeca have underlined the importance of two strong pillars of the CAP, and do not favour transfers between the pillars (mainly from first to second), in particular if there is not corresponding national co-financing.

Pillar I is the basis of the common EU approach across all farms, supporting farm incomes, ensuring farming sustainability, the maintenance of viable food production and food security. Taking into account Member States differences in structures and historic developments capping and degressivity are unacceptable.

Pillar II provides tailor made solutions at farm level, from investments to specific measures (e.g. agri-environment-climate measures, ANC and animal welfare) that respond to societal expectations and supporting the entry of younger farmers to the sector. The subsidiarity part is the core element of the Rural Development policy which allows Member States to better target support whilst maintaining the element of communality of policy that is so important. A strong financial commitment is required from Member States for the Rural Development policy.

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<sup>2</sup> See conclusions [PAC(16)4415 (rev.1)] from the Workshop on "Main Challenges for a future CAP" held on 13<sup>th</sup> May 2016.

A CAP that compensates for natural handicaps. In addition to direct payments, the ANC (Areas with Natural Constraints) measure, in particular, must continue to play an important role in the future CAP due to its crucial role in maintaining the viability of rural areas that have natural or other specific constraints including the mountain areas. This targeted measure contributes to the continuation of the use of land and the maintenance and promotion of sustainable agriculture production in these areas. The ANC measure is critically important to prevent land abandonment and contribute positively to biodiversity, water management and jobs in the rural areas. Member States should however be given enough flexibility, also in the future, to implement this measure.

All the arguments above are consistent with the maintenance of the CAP support only to active farmers in producing food, feed, fibres and renewable energy – those who actively contribute a sustainable sector and provide public goods and growth.

It is of paramount importance to ensure an adequate and common funding for common policies, especially in what regards the level of CAP funding. This is very much relevant, not only in the context of the current MFF and the post 2020 MFF but especially also in view of the budgetary implications of Brexit.

The CAP costs less than 1% of the total EU public spending and the *per capita* spending on the CAP has decreased by 30% over the past 25 years. This is a good investment and it also contributes decisively to the priorities of the Juncker Commission (e.g. growth & jobs).

In order for the CAP to reach its goals and also, contribute to new challenges, the post 2020 MFF must therefore ensure an increase of the funding for the CAP. This is necessary in view of the economic hardships being faced by farmers in recent years<sup>3</sup> and the additional requirements that they have had to carry. This would provide the means for farmers to contribute to feed consumers, fight climate change, improve environmental performance and maintain vibrant rural areas, and, globally contribute to create growth and jobs in the EU.

Further to this, it is vital to develop, in collaboration with all relevant stakeholders, simpler and more efficient ways to positively communicate on why, how and for whom the CAP budget is and will be spent, how important it is to keep rural areas viable and the need to have competitive farming systems. The examples and stories of millions of farmers can actually contribute to this.

All these elements will help EU to improve the performance of the policy and to better communicate on its achievements to citizens and tax payers.

### **3. THE FUTURE CAP MUST ENSURE A SUSTAINABLE EUROPEAN AGRICULTURE**

In the context of the current discussions of the CAP post 2020 the focus must be on improving the current policy structure and measures rather than on a major policy overhaul. The agricultural sector needs long-term stability of its policy framework in order to deliver an economically viable and sustainable farming sector.

An economically viable, market oriented agricultural sector is a pre-condition to deliver public and environmental goods and services for the benefit of the society.

#### ***Simplification:***

What is at stake is to improve the effectiveness and the implementation of the current policy whilst making it simpler and easier to use for all beneficiaries. The CAP is still, and probably more than ever, an extremely complex policy despite the simplification exercise currently being carried out by Commissioner Hogan. This complexity in the implementation, follow-up, use, controls and audits doesn't serve the farmers nor anyone else and furthermore endangers sustainability. In particular a less detailed structure of the Rural Development Policy (e.g.

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<sup>3</sup> Farmers income in the EU has decreased in four of the last five years and it currently represents less than 50% of average earnings in other economic sectors.

priorities and focus areas) would contribute to simplify the delivery of the policy and therefore benefiting administrations and farmers alike.

The control system for the implementation of both Pillar I and Pillar II measures must also be addressed during the simplification exercise due to the direct impact on farmers. Currently, farm inspections are extremely complex, time consuming, bureaucratic, inefficient in terms of cost/benefit and cause farmers an unbearable level of risks and uncertainty. The single-audit principle should be the basis for both the EAGF and EAFRD. The number of on-the-spot-checks (OTSC) must be reduced.

The sanctions system must also be revised and simplified as it has a significant effect on farmers' activities and their participation in various measures. As it currently stands, sanctions are too complex and too severe (not proportionate). Sanctions should therefore be clear, understandable, proportionate and fair, otherwise they could jeopardise the continuation of farming activities. In the context of the current payments and controls system, an sufficient level of tolerance must be found taking into consideration risks, control costs and the level of payments.

The system should evolve from a “controls and sanctions” approach to a “guidance and corrections” one.

Furthermore an increased use of digitalisation, remote sensing and ICT, can contribute to improve efficiency, accuracy, quality and timeliness of controls and audits whilst effectively reducing red tape not only for farmers but also for administrations (both national and European). Connected farmers should be encouraged and rewarded for their own actions in using ICT tools.

Among the current policy measures, greening, in particular, must be streamlined and simplified by implementing practices consistent with agricultural activities normally carried out by farmers. This must be done in compliance with the political agreement from 2013 of a production-oriented greening. The current proposals are not simple and furthermore they undermine the production potential of European agriculture.

Copa and Cogeca are currently looking at tangible proposals for the simplification of greening and cross-compliance obligations that will be presented at a later stage.

### ***Sustainability, Climate change and SDGs:***

For farmers, forests holders and agri-cooperatives sustainability is the most important element for the entire CAP. Economic, environmental and social sustainability are at the core of any farm and agri-cooperative business, are interdependent and mutually strengthen one another. The future CAP must ensure a balanced approach between these three dimensions . European farmers' economic viability and competitiveness is crucial so that they can deliver on the environmental and social sustainability dimensions.

Agriculture and forestry cover more than 75% of the land in the EU and play a crucial role in ensuring a sustainable management of natural resources. The availability and quality of natural resources is paramount for the farming sector to ensure sustainable business opportunities from an environmental point of view. Farmers and forest holders always pay close attention to the inextricable links between land management, the environment and ecosystem services in their daily activities.

Sustainable EU agricultural and forestry practices balance various needs and deliver benefits, such as healthy and safe food, renewable and climate friendly raw materials to further develop the EU bio-economy, ecosystem services, recreational activities for society, mitigation and adaptation to climate change, and protecting key habitats and nature.

Agricultural production is dependent on the environment. Farmers are, and have been, committed to the adoption of new management practices that reduce their environmental impact and enhance sustainability. Society thus benefits greatly from ecosystem services delivered by farmers, and farmers must be recognised and supported for providing these services and for using natural resources more efficiently.

Maintaining and creating jobs, ensuring growth and competitive business through investments in the agriculture and forestry sectors are some of the most important elements of the socio-economic part of sustainability. In this respect we must ensure that the agricultural and forestry sector has a strong focus on generation renewal and becomes more attractive to new (younger) entrants thus competing with other economic sectors. Support provided must cover not only the transfer of farming businesses but also of start-ups.

The adoption by the United Nations of the Sustainable Development Goals (SDGs) and the outcomes of the Paris agreement on Climate Change represent additional challenges to improve the sustainability status and performance of farms. Further to this the SDGs and the Paris agreement must be integrated in EU policies as both the EU and MS are legally bound by them.

Resource efficiency<sup>4</sup> and the promotion of an active land management<sup>5</sup> are part of the tool box of the agriculture and forestry sector to adapt to and mitigate climate change. In addition to these elements, rural development measures can support practices that actively reduce greenhouse gas emissions and plans for carbon auditing. Investment in irrigated agriculture areas and adequate drainage systems can also reduce GHG emissions caused by water extraction and irrigation, and improve the sustainability of water use whilst furthering climate resilience.

Therefore farmers as land managers play an active and relevant role in contributing to environmental sustainability. Only through farmers' efforts in climate change adaption and mitigation can we contribute to a sustainable and competitive agri-food chain that provides safe, quality and nutritious food to consumers in Europe and elsewhere in the World.

In particular the legislative proposals on Climate Change and energy policy must take into consideration relevant agricultural aspects. When it comes to this agriculture is clearly part of the solution. Farmers are committed to this process.

### ***Improving market resilience and risk management<sup>6</sup>:***

Farmers and agri-cooperatives have been facing in recent years greater market fluctuations as well as a significant increase of risks derived mostly from greater market volatility; more exposure to new animal and plant diseases; and an increased frequency of extreme weather events due to climate change. More recently the agricultural and forestry sector have also been facing market disruptions resulting from political decisions.

The presence and incidence of such risks has different impacts on regions, Member States and sectors as it depends on numerous factors, such as type of product, international markets, market management, or natural and climate conditions.

Some of these risk factors are interconnected. For instance, climate change may lead to variations in weather conditions and therefore changes to ecosystems, thus leading to new opportunities for pests and diseases to develop.

All this, combined with an increasingly more open EU market and international trade flows, has created disruptions on markets, in addition to low prices resulting in an extremely low level of cash-flow for farmers across the EU. These risks increase uncertainty for production and certainly impact on farm income.

Direct payments provide a basic income level that ensures stability, secure liquidity for farmers (regardless of the size and management form of the farm) and certainty in face of market volatility which in turn guarantees food security, employment and sustainability.

Decoupled direct payments support farmers in their activity of agricultural production that respects production standards with regards to quality, food safety, animal welfare, environment and climate. Direct payments should be granted only to active farmers who contribute to food security and deliver public goods and services.

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<sup>4</sup> Resource efficiency – producing more by using less and supporting a climate resilient agriculture.

<sup>5</sup> Promote active land management – prevent land abandonment and support carbon sequestration.

<sup>6</sup> See reflection document on the role of risk management tools under the future CAP [RMI(16)4584 (rev.7)]

Further progress in harmonising the comparative level of direct payments between Member States, taking into consideration differences in conditions, should be pursued to contribute to viable rural areas across the EU.

Coupled payments must continue under precise and limited conditions to support sectors, especially livestock production, in regions where other policy tools are not available or are less efficient.

As stated above for Copa and Cogeca direct payments are still the main tool to support and stabilise farm income. In addition, more efficient and better functioning tools must be designed and implemented. This would make it possible to better address market volatility, the serious consequences of animal and plant disease outbreaks, and weather extremes. Such tools should complement the existing system of direct payments and market management measures, and, under no circumstances, replace them.

Copa and Cogeca also believe that the different risk management tools must be complementary. These tools include national schemes and income taxation systems to address income volatility. Such an approach would allow farmers to benefit from a wide range of tools covering different risks, be they economic, climatic, sanitary, etc.. These tools must, however, be voluntary for Member States to apply.

In what regards market risks, it is necessary to maintain the current measures to cope with market volatility – direct payments, market safety nets and risk insurance. These measures need to be speedier both in their activation and in their results. Furthermore, market risks can also be managed by obtaining better market access for European agriculture and food products in export markets.

The current EU veterinary and phytosanitary fund should be maintained and continued in the future, with the aim to prevent and reduce the number of outbreaks.

The existing market management tools such as intervention and private storage aid still have a part to play in reducing risk for the farming community across all of Europe.

Copa and Cogeca want to highlight the important role of the safety nets. It is crucial for market management measures to help producers cope during periods of low market prices and/or rapid increases in costs, as well as high price volatility, for both inputs and production.

Market management through intervention requires a review of reference prices in order to take into account higher production costs. However, this adjustment must not lead to permanent stock accumulation and should be managed cost neutral for the EU-budget long term. In any case, these measures may not suppose a renationalisation of market tools.

Well-functioning derivative markets, including future markets, play an important role in reducing price volatility impacts. It is therefore essential to allow farmers and agri-cooperatives to engage in forward trading. The specific nature of farmers and agri-cooperatives should be taken into account in the process to review the Markets in Financial Instruments Directive. Efficient and well-functioning futures markets help farmers and agri-cooperatives to manage risks and reduce their reliance on one single outlet. Futures markets should also be further developed, its' operations improved and extended to other commodities. This requires among other a number of conditions such as data collection on prices, margins and its transmission along the food chain. These are consistent with the recommendations of the Agricultural Markets Task Force.

As farmers are the first producers of food it is important that other policies (e.g. trade policy, promotion policy) also play a positive indirect role in supporting farmers income by facilitating exports of EU agri-food products to third countries. In this context an European export credit scheme could contribute to alleviate the pressure in EU markets and reduce market risks.

It is especially important that farmers can access adequate advisory, networking and training services to improve the knowhow about markets and to develop the best appropriate resilience and risk management strategies for the individual farm environment.

### ***Strengthen farmers' position in the food supply chain, supporting agri-cooperatives and POs:***

Whilst the extension of POs to all sectors in the current single CMO regulation is positive, the current provisions haven't yet contributed significantly to improve farmers' position in the food value chain.

It is fundamental to ensure that agricultural cooperatives, POs and APOs fulfil the following criteria as a precondition for eligibility of support: economic responsibility; adequate resources and structures; minimum number of members, and; mandatory marketing of members' production. The precise conditions should be individually defined for each sector so as to take into consideration its specific characteristics.

Measures supported must go beyond the simple concentration of supply and must support value adding activities in the production of food, development of alternative products as well as placement on the market.

Steps must therefore be taken to remove blockages that prevent agricultural cooperatives, POs and APOs to make the full use these provisions. Among these blockages is the competition policy that needs to be revised (in line with the recommendations of the Agricultural Markets Task Force report). Recognising the specificities of the agricultural sector and allowing farmers to work collectively are two fundamental pre-conditions to strengthen farmers' position in the food supply chain and consequently improve their bargaining power. Without legal certainty regarding joint action farmers' uptake and use of these measures will be minimal. In this context a modernisation of the competition law should be envisaged.

These measures must also promote, whenever necessary, the setting-up of agricultural cooperatives, respect the integrity of existing ones, facilitate concentration and should be non-distortive from a competition policy angle as well as contribute to a well-functioning Single Market.

Broader aspects related to improving the efficiency of business-to-business (B2B) commercial relations and curbing unfair trading practices (UTPs) should be tackled under other policy areas rather than through the CAP.

### ***Rural development and Cork 2.0<sup>7</sup>:***

The Rural Development Policy (Pillar II) must provide the right tools for farmers to deliver public goods and services to society whilst ensuring a fair income for farmers and a competitive and market-oriented agricultural and forestry sector. The Rural Development Policy must be strengthened through a long-term coherence with other EU policies supporting rural areas in the provision of the necessary infrastructures and services, in promoting generation renewal and fostering both innovation and efficiency.

Copa and Cogeca believe that the rural development (Pillar II) policy must continue to focus on farmers as they are the backbone of the economy in many of EU Member States. Agriculture and forestry still provide most jobs in rural areas and farmers are the main actors to preserve natural resources across the European landscape.

The Cork 2.0 declaration "A better life in rural areas", covering several policy areas, recognises the current challenges faced by farmers and proposes solutions to further support the sustainable growth of both the farming sector and of rural areas.

For European farmers, forest holders and agri-cooperatives the implementation of the Cork 2.0 Declaration and the modernisation of the CAP should focus on the 3S – Sustainable and Smart agriculture and forestry and Simpler EU and national policies. In addition to this, the four building blocks of the declaration – 1. Jobs, growth and investment in the agri-food supply chain

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<sup>7</sup> See also the future of Rural Development Policy: Contribution to the implementation of the Cork 2.0 Declaration [DR(17)1180 (rev.4)].

and the wider rural economy; 2. Rural environment, climate & water; 3. Targeting innovation to farmers' needs, and; 4. Rural viability – must be a central part of the 3S.

Furthermore, Copa and Cogeca would like to stress that rural development as a relevant horizontal policy area, should be covered by all ESI-funds and not only by EAFRD.

***Investment support and improving infrastructures (EFSI):***

Further to investment support under the framework of the Rural Development Policy, the EIB Group must maintain and further develop its facilitator role when it comes to access to credit for the agri-food sector. The EIB Group must also continue to design and develop simpler, more flexible and targeted Financial Instruments (FIs) for the agri-food sector. These FIs must be used complementary to the use of grants under Rural Development and not instead of them. Furthermore EU legislation must not favour one tool against the other.

It is necessary to guarantee the functioning of EFSI (European Fund for Strategic Investment) as a driver for infra-structure development (e.g. transport, stocking, digital networks) across the EU, in particular in the most recent Member States of the EU. This will contribute, directly and indirectly, to improve the competitiveness and sustainability of the agricultural sector.

Particular attention must be paid to the upcoming legislative proposals related to Basel 3.5 as they might have a strong negative impact both on the access and the cost of credit for the agri-food sector. Given the fact that most loans in the agricultural sector are financed against collateral, the proposals may lead to less availability of credit and/or to less favourable lending conditions. This will definitely have an impact to the competitiveness of the agricultural sector.

***Generation renewal including access to land:***

In the future CAP a number of more targeted and efficient measures addressing generation renewal must be put in place to increase the number of new younger entrants in the sector, improve social sustainability and prevent desertification of rural areas.

These measures should be introduced preferably within the Rural Development Policy supporting the setting-up of new and younger farmers (regardless of the legal form) and be combined with on-farm investment support. In addition to these, longer-term measures accompanying the farm business development must be made available to improve their start-up success rate. Member States and regions should be obliged to make them available for farmers.

Advisory, networking and training services should be made available to improve the knowhow and competences of younger farmers benefiting from this targeted support.

Member States should be encouraged to facilitate access to land to younger entrants to the sector by way of increasing land mobility and access to land and facilitating access to credit.