ELO
European Landowners' Organization

'FPG Workshop on the Future of Agriculture'

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This presentation is split into two parts:

Part 1: The context in terms of global challenges that we find ourselves in today.

Part 2: The new goals. Issues with the current CAP and how it can and should adapt to meet the global challenges.

Context: We face Nine Major Challenges (a)

- **Population growth**: 80 million people more per annum (220m a day, declining), 9.4bn people by 2050 with 60% living in urban areas, 3bn with less than $2/day
- **Growing demand for crop** products (cereals, plant fat, proteins), and feeding stuff as meat consumption grows with living standards.
- **Growing demand for energy**, including bioenergy based on renewable raw materials (10% biofuel target, 20% renewable energy target)
- **Globalization and urbanization**: production moves to the most competitive regions, trade becomes more open, but also more managed (less predicable)
- **Climate change**: agriculture contributes to emissions, but also to carbon sequestration; it suffers or benefits from changing climates

Nine Major Challenges (b)

- **Increasing market volatility** due to: yield fluctuations, food market segmentation, end stock fluctuations, input and output price volatility and €/$ exchange rate volatility as food balances worsen in time, and consumer sentivity for food safety, quality and price increases
- Growing public interest in **agricultural public services** such as food and feed, rural landscape maintenance, environmental protection, animal welfare, value for money
- **Social problems** such as aging of farmers, farm successions, competition for land
- **Uncertainties** with the timing and application of **innovations** such as biotechnology, nanotechnology, precision farming, carbon sequestration, information technology.

World Population Growth 1950-2050

Year	Population (millions)	Average annual growth rate (percent)	(millions)
1950	2 557	1.47	37.8
1975	4 084	1.72	71.0
2000	6 072	1.24	75.8
2025	7 959	0.85	68.1
2050	9 402	0.49	46.3

Source: United States Census Bureau (2008)

Population increase in various world regions, 2007-2016

Region	Population increase (percent)	(millions)
Africa, All	23	219
Asia, All	12	465
- *China*	7	88
- *India*	16	183
Latin America	11	66
USA	9	27
European Union	1	5
CIS Republics	-0.2	-1
World	12	791

Source : Humboldt univ. figures based on FAPRI (2008a) and PRB (2007)

World Grain Consumption 1969 to 2025

Region	1969 (million tons)	1997 (million tons)	2025 (million tons)
Developed countries	564	725	834
Developing countries	453	1 118	1 776
World	1 017	1 843	2 610

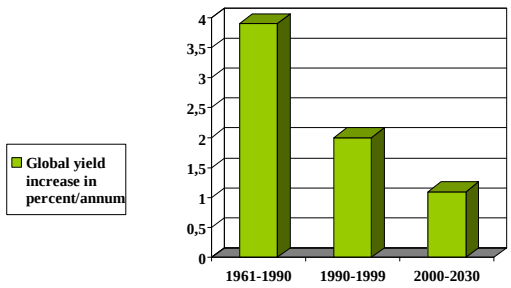
Source: RUNGE et al. (2003)

Change in Grain Consumption by Region

Region	Change 1997-2005 (million tons)	(percent)
China	192	25
India	92	12
West Asia and North Africa	77	10
Other Asia	107	14
Sub-Sahara Africa	100	13
Latin America	92	12
Developed countries	107	14
World	767	100

Source: Humboldt univ. calculations based on RUNGE et al. (2003)

Global yields increases, 1961-2030



Source: Adapted from FAO (2008a, b).

Regional differences in projected wheat yields

Region / Country	2004-2006 (tons/ha)	2015 (tons/ha)	Increase (percent)
Ukraine	2.82	3.01	7
Russia	1.88	2.01	7
Brazil	1.83	2.11	15
China	4.32	4.43	2
India	2.68	3.07	15
USA	2.77	3.00	8
European Union	5.55	5.81	5

Source : Adopted from FAPRI (2008a)

Net trade position EU-27, 2003/05 – 2013/15 and Yield increases to maintain net EU-27 trade position

Key crop	2003/05	2013/15	Increase (in percent)
Wheat	7 993 k tons	- 7 824 k tons	19
Corn	- 1 643 k tons	958 k tons	
Oilseeds	- 14 083 k tons	- 25 229 k tons	84

Source : Humboldt univ. calculations

The new goals

- We need a refreshed, positive, high-level public message on the role of the CAP for the first half of the 21 Century
- ELO suggests it is a common policy to achieve **Food and Environmental Security, FES**
- If farming and green interests do not make the case for their policy no one else will
- FES can embrace the still relevant Treaty justifications for the CAP, plus the land management relevant aspects of sustainable development and Lisbon competitiveness.
- Specific goals within this can be spelled out

Making the big-picture case for this new CAP

- The global food and environmental challenges, their interactions & their prospects given climate change
- Europe's contribution; why there should be one
  - Our historical, cultural, scientific, economic and political status
  - EU contribution to food & environment and our supra-national approach to solutions
  - The legal & institutional precedents, transboundary nature of challenges, jointness between food & environment, and the single market explain the EU value-added

Seven concerns with current policy

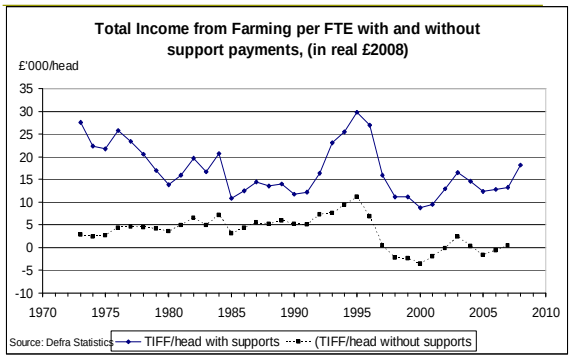
1. Non-legitimacy of the Single Payment System
2. Yet, the dependence of farming on SP
3. 'Unfairness' of support distribution to new MS
4. Agricultural development needs
5. The delivery of required public environmental services and standards
6. The fate of the agriculturally Less Favoured Areas – High Nature/Landscape Value farming
7. Need for economic diversification of rural areas

It would help the reform debate to try and get agreement first on this or a preferred list.

Deep criticisms of the Single Payment System (SPS)

- The origins of the quantum and distribution of the SPS lie in the commodity support systems it replaced.
- This is not defensible the more time elapses
- EU farming as currently structured is heavily dependent on the SPS so its removal would have a massive, and not-estimated, impact on farm structures.
- So significant changes in the SPS have to be announced well ahead and phased-in over a transition period.

Dependence of farming on SPS, UK aggregate level data



Dependence on CAP support, farm level data, England 2007/08

Type	Sample size	Average area	Farm Business Income	Single Payment		Environment Payments		Total Public Payments	
		Ha	£/farm	£/farm	%	£/farm	%	£/farm	%
Dairy	296	117	55,100	22,075	40	3,569	6	25,644	47
Grazing Livestock LFA	248	129	10,400	16,164	155	9,213	89	25,377	244
Grazing Livestock Lowland	241	94	12,400	16,053	129	4,239	34	20,292	164
Cereals	356	205	73,400	37,104	51	8,260	11	45,364	62
General cropping	195	220	81,000	37,588	46	8,243	10	45,831	57
Specialist pigs	59	39	6,300	4,942	78	937	15	5,879	93
Specialist poultry	69	25	139,200	3,875	3	934	1	4,809	3
Mixed	169	151	37,300	27,666	74	6,058	16	33,724	90
Horticulture	213	30	51,800	2,043	4	1,261	2	3,304	6
All Types	1826	140	48,100	23,916	50	5,859	12	29,775	62

Justifications offered for the Single Payments

- Justifications offered:
  - Income support
  - Stabilisation of income
  - Compensation for higher EU standards
  - Providing public goods (including ecosystems services)
  - Contributing to food security
- Some truth in all of them
- **But** difficult to explain the quantum and distribution across farms, regions and Member States.

Figure 1: Average direct payment per MS (in € per hectare)

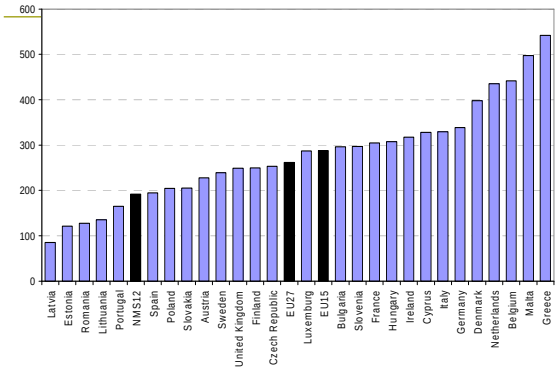
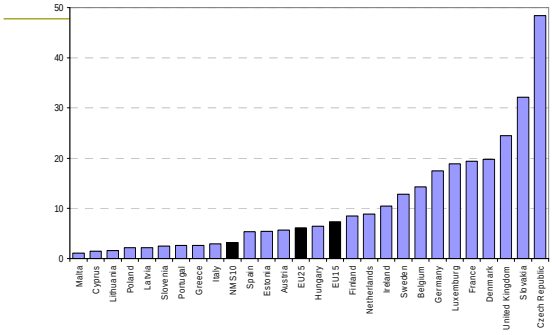


Figure 2: Average direct payment per MS (in 000 € per beneficiary)



Source: DG AGRI calculations (see Annex C, note 1 for details).

Agricultural development needs

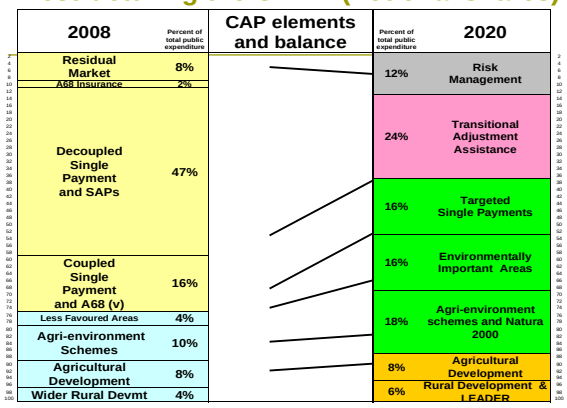
- Farming re-structuring
- Knowledge and skills
- Management of volatility;
- Infrastructure development needs;
- Productivity growth;
- Marketing & food quality development

More can be done under these headings everywhere, but there is particular demand in the new Member States

Required public environmental services and standards for land management

- Water quality and quantity
- Air quality – GHG, NH3
- Soil erosion, structure and organic matter
- Biodiversity, habitats and species
- Cultural landscape, including heritage

Restructuring the CAP – (notional shares)



Main messages in this restructured CAP

- We continue to need **risk management/safety net** tools
- Any surviving decoupled single payments become **Transitional Adjustment Assistance** (=Basic Husbandry Payment BHP – Mahé)
- Increased resource for **European Public Goods** (EPGs) including **Ecosystems Services**
  a. Better targeted 'coupled payments & A68 (env) we can't ignore these, better to allocate them to b or c
  b. High Nature Value Farming (HNVF) areas maintained (=Natural Handicap Payment NHP - Mahé)
  c. Agri-environment (=Green Points Payment GPP – Mahé)
- Redistributed **agricultural development** – and R&D?
- **Wider rural development** assistance continues

The principal obstacles to such moves

- Lack of agreement of CAP objectives
- Obsession with budgetary gains and losses
  - The existing distribution of net balances
    - Current shares of Pillar 1 and core Pillar 2
    - Current MS co-financing
  - The obstacle of additional co-financing
- If the financing distinction between Pillars 1 & 2 is a principal obstacle to CAP reform, drop it.

The CAP reform debates to date

- Suggest three fates for the SPS
  1. **Cuts** – financial discipline (?)
  2. **Redistribution** – between MS 'fairness' = cohesion
  3. **Transformation or switching purpose** – to more targeted payment for public environmental service
- The status quo is that they will be dealt with in this order. This would mean little transformation. The pain of the cuts & redistribution will exhaust all reform zeal.
- Policy logic says:
  - **1st transform**
    - different purpose implies different distribution
  - **2nd** consider the **distribution**
  - **3rd** then see what space there is to **cut**

Why European policy and budget?

- Because of
  - jointness (in actors, production & practice) between farming & EPGs
  - different demands and valuations of EPGs

  We must start with EU programmes and schemes or unfair competition in the Single Market
- The transboundary nature of nature
- Common EU goals, non-use value is important (people don't just care about the environment on their doorstep)
- Links to EU policy objectives, environmental & CAP
- Cohesion

Where does this leave the two Pillars?

- Distinction between them converges, although
- Much more of the policy has the character of Pillar2
  - Multi-annual; programming, menu driven, regionally defined; subject to monitoring & evaluation
  - But MS co-financing has to relax
  - Redistribute the EU finance – between the Member States and the Pillars more objectively s
  - Core, green, measures are voluntary, contract based with the party who can deliver the services
- But still investment supports too

Two other unresolved problems

- **Environmental payment principles**
  - where farming is the principal activity and is viable, but subject to rising margins, must be able to adjust payments
  - where farming is not viable yet we want the managed 'farmed' environment (i.e. HNVF/LFA) so the payments must reflect non-ag opportunity cost
- **Determining the reference level** – how might it change?

Concluding remarks

- **2009/10 is the time to justify an EU Policy and Budget for the rural world to the public at large**
  - ELO suggestion is a positive rallying cry around Food and Environmental Security
  - No change from 'Common' and 'Policy' but 'agriculture' broadens to 'food and environmental security'
- **The political target should be the non-rural world (who are paying for the policy)**
  - Farmers have to be persuaded, but
  - don't drown the argument on the details of the pillars, their financing & legislative basis
  - These are the important details – but first get the objectives and scale of the problems in focus

Thank you for your attention!

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