EU News & Policy Debates

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THE MAIN CHALLENGES FACING THE CAP

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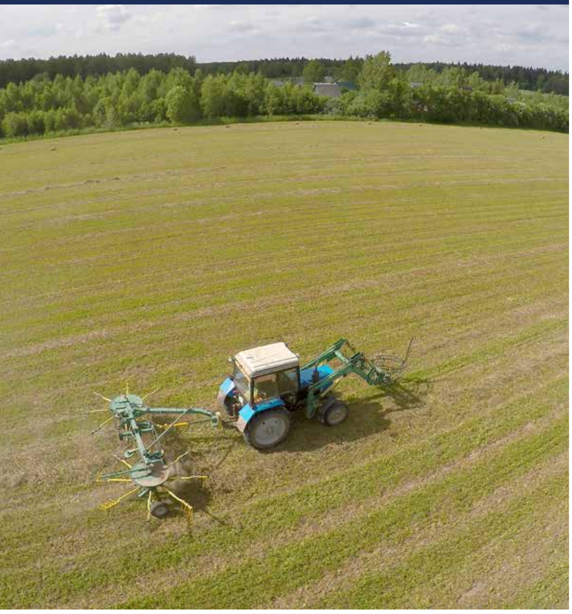

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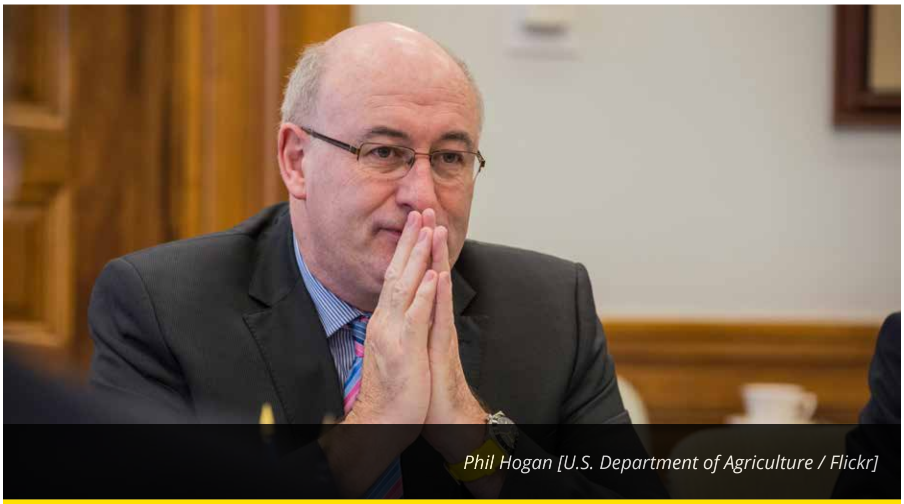

Phil Hogan [U.S. Department of Agriculture / Flickr]

New CAP is still struggling to find new export markets

Agriculture Commissioner Phil Hogan has launched a "diplomatic campaign" to find new markets for EU products. But external trade complexity and an unbalanced internal market pose serious challenges for the executive.

Hit hard by the Russian embargo and sluggish Chinese demand, over the course of the last two years, European agriculture has found itself in a difficult and complex market situation.

The European Commission is trying to find new markets for EU agricultural products, but at the same time, it is struggling to stabilise the internal market, which is suffering from a significant drop in prices.

The Russian embargo has put enormous pressure on already struggling European Union agricultural markets. Trade between Russia and the EU dropped by over €163.4 billion between 2013 and last year, and Union farmers and agricultural cooperatives lost their main export market overnight worth €5.5 billion.

The new Common Agricultural Policy for the period 2014-2020 is faced with a dual challenge: stabilising EU agricultural markets in the short term, while simultaneously finding new export outlets in the medium term.

Diplomatic initiatives

Agriculture Commissioner Phil Hogan has already led several trade missions to countries outside Europe to boost EU exports. In February, Hogan visited Colombia and Mexico. In April he went to China and Japan, while in the autumn Hogan is planning on visiting Indonesia and Vietnam.

EU sources told EurActiv.com that promotional visits for next year were "under active consideration".

"In each mission, I have been joined by a high-level delegation of representatives from EU agricultural and food businesses [...] they meet their third country counterparts, and begin to forge the relationships that grow our mutual trade," Hogan recently said during a speech at the Conference of the German Farmers' Association, in Hannover.

According to Hogan, the EU's export-driven mindset has substantially helped the promotion of products. EU agri-food exports are now worth over €120 billion annually, making the EU a leading player in global food sales.

Currently, the top five destinations for EU-28 agri-food exports are the US, China, Switzerland, Russia and

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Japan.

According to a report, the United States is by far the Union's most significant trading partner, absorbing 15% of total exports and growing. In 2015, sales to the US grew by another 19% but the quickest growth was registered for China (+39%).

While in 2014 the growth seemed to stabilise (+2%), in 2015 the value of exports grew by more than €3 billion to reach €10 billion.

But EU farmers claim that the current CAP is not fully equipped to tackle crises in agricultural markets.

CAP is "inefficient"

Pan-European farmers' association Copa-Cogeca told EurActiv that finding new markets is a top priority, but that it "takes time".

Copa-Cogeca Secretary-General Pekka Pesonen noted that despite the fact that EU agricultural exports rose by 5.7% in 2015, EU farmers should be benefiting more from this gain. "Strengthening farmers' positioning in the food chain has been marked as a priority by the Slovak presidency," Pesonen stressed.

He added that written contracts were needed between producers, processors, and retailers, who must guarantee that farmers are given a fair price for their produce, and are paid on time.

Pesonen continued, saying that EU farmers need statutory legislation at EU level so that operators are fined when they break the law.

"We are already starting talks on the post-2020 CAP to ensure that we have a better agriculture sector in the future which is more capable of responding to agricultural crises. The current CAP does not have enough tools to ensure this. We need to develop tools at the farm level to help farmers better manage the risks of increasingly volatile markets," Pesonen said.

Southerners most "interested"

In addition to the "diplomatic push", the European Commission has also launched a promotional campaign for EU products, with some €111 million available under the 2016 budget.

The philosophy behind the scheme is to boost the agri-food sector's competitiveness within the EU and support the growth of European quality foods worldwide, as approximately 70% of the budget is earmarked for third countries.

The Consumers, Health, Agriculture and Food Executive Agency (CHAFEA) is responsible for the approval and implementation of the proposals. The results are expected to be published at the end of September.

EurActiv has learnt that the number of applications widely exceeds the available budget. Approximately 228 proposals have already been submitted from 25 member states, with Southern Europe expressing enormous interest.

From Italy and Greece, 45 and 41 proposals have been respectively submitted, along with 27 applications from France. Sweden, Luxembourg, and Malta have not submitted any proposals, while Germany has a very low number considering the size of its market.

"Unfortunately, there has been limited interest from Germany, with only three proposals to date, and a rather modest number of programmes during the previous regime, certainly in view of the size of your agricultural sector," Hogan stressed.

Milk crisis and global demand

The abolition of EU production quotas in April 2015, combined with the Russian embargo and dropping demand from China, led to a collapse in milk prices.

On 18 July, the Commission announced a new €500 million aid package to tackle the unprecedented crisis in the European Union's dairy and livestock sectors. The package is more focused on supply, by compensating EU farmers for reductions in production volumes.

"Despite my commitment to identifying new markets and some encouraging export data, opportunities for increased demand are limited. Accordingly, more focus must come on the supply side," Hogan stressed, underlying that the most recent price information available from the Milk Market Observatory shows that the average milk price in the EU in June was is still very low (27.4 c/kg).

The EU agriculture chief also quoted Milk Market Observatory experts as saying that market fundamentals have not really changed and that rebalancing supply and demand remains necessary.

The executive has ruled out any idea of reintroducing the milk quota, also on a temporary basis, as "politically is not an option and legally not possible".

Heated debate in Germany

In Berlin, agricultural policy has been dominated by the ongoing milk crisis for months. Prices are at rock bottom, and more and more farmers fear for their livelihoods.

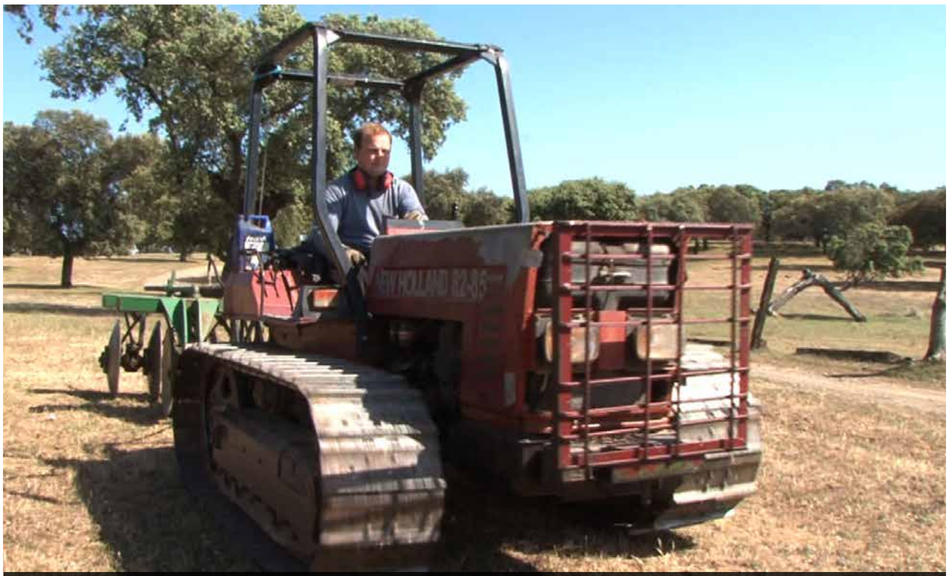
In April, milk production in Germany showed an average price of 25.78 cents, which did not even cover two-thirds of production costs, which are over 44.60 cents per kilogramme of milk.

However, German Agricultural Minister Christian Schmidt shares Hogan's view that there should be no return to milk quota. He believes that if farmers do not cut down on milk production voluntarily, then they should not expect financial help from the EU.

But many German farmers have criticised the linking of these funds to reducing milk output as being unhelpful and urged the government to correctly allocate the aid package agreed on by the Agricultural and Fisheries Council directly to them.

New CAP can make EU farming profitable, Spanish farmers say

Spanish farmers consider the new Common Agricultural Policy (CAP) as an opportunity to cut red tape and make environmental measures more efficient. But in order for EU farming to become more profitable and sustainable, structural reforms are needed.



Spanish farmers see the new CAP as a big challenge. [Stéphane M. Grueso / Flickr]

According to Spanish farmers, the new CAP poses a big challenge: provide farmers with a more efficient and dynamic framework to allow them to better manage the market and at the same time confront crises like the Russian embargo or the end of milk quotas.

The new CAP could be also a good tool to tackle price volatility and increase the competitiveness of the EU agri-food sector, they noted.

Red tape burden

Bureaucracy and administrative simplification are "hot" issues for the new CAP.

Reducing red tape would help farmers comply with the 'greening' (environmental) requirements of the new CAP, and also the new norms contained in trade agreements between the EU and third countries to better optimise the EU's production model.

In their view, the new CAP can also help reach out to new markets and support the process of resizing and concentration of the agri-sector to make it more competitive.

Focus on structural reforms and cooperatives

Gabriel Trenzado, International Relations Director of "Cooperativas Agro-Alimentarias" (agri-food cooperatives), told EFE that an "open debate" should be launched on what sectorial management market instruments the EU needs to better address price volatility.

"We think that the CAP should focus on structural reforms", Trenzado said, adding that the target should be a more concentrated sector. "The agri-sector should be more dimensioned to make it profitable," he stressed.

For Trenzado, a stable environment until 2020 is necessary, and the simplification of the CAP should be administrative but not political.

"However, this red tape cutting shouldn't be an alibi to implement a premature reform," he said, adding that the EU should look for new markets and forge a "big pact for the agri-sector".

In his view, it would be essential to work in incentives for the concentration and economic organisation of the production sector.

But in order to achieve that, he emphasised the role of cooperatives.

However, cooperatives in Spain have a big structural problem. If they are strong enough, they increase their chances to compete in the markets, but smaller ones are faced with a number of problems.

Ignacio López, International Relations Director of the association of young farmers (ASAJA) told EFE that two of the most important challenges which lie ahead are "focusing more on the production sector, making it more profitable and visible along the full agri-food chain and also fighting against market volatility".

'The EU wasn't ready'

He noted that the Russian embargo indicated the EU's "tremendous dependence" vis-a-vis market fluctuation. "It is important to have a CAP with market and profit regulation mechanisms in case of unexpected crises", he added.

"The liberalisation and deregulation processes in the markets had strong effects, but the EU was not able to respond in a fast, adequate and urgent way," he underlined.

Spain´s farming sector successfully adjusted to the greening requirements of the CAP, but according to López, more

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can be done with more simplification measures.

This should be only "an adjustment not a reform", he explained.

Regulated markets and subsidies

Miguel Blanco, Secretary General of the COAG, which represents a wide range of farmers' associations, stressed that the current and future CAP should focus on market regulation measures.

"The CAP should return to policies setting new criteria on quality and food security, and the environment protection," he noted, adding that subsidies policy without regulating the markets will be just a "temporary solution".

For COAG, the 2014-2020 CAP is the most bureaucratic ever and reducing red tape is key "to simplify current management of checks and requirements of farmers".

"Greening should be revised"

The Union of Small Farmers and Breeders (Unión de Pequeños Agricultores y Ganaderos, UPA) believes that the current criteria on greening should be reviewed as they do not match with the situation in Spain regarding fallow, ratios or diversification.

"It would be useful to revise the amount limits for the coupled aid measures because they are a great instrument to confront sectorial crises", a UPA spokesperson told EFE AGRO.

The UPA spokesperson also stressed that the Russian embargo highlighted the importance of opening up new markets for the EU and exposed the weaknesses and vulnerability of the European farming sector vis-a-vis political decisions made outside the sector.

Crisis-hit French farmers unconvinced by new CAP

French milk, pork and beef farmers are currently facing severe crises, and they fear that the new Common Agricultural Policy (CAP) will not have the answers they need. EurActiv France reports.

French pork farmers were particularly hard-hit by the Russian embargo. [Arran Moffat/Flickr]

The end of milk quotas in April 2015 and the Russian embargo have put French farmers under enormous strain. And the CAP is struggling to improve the situation.

The Russian embargo dealt a severe blow to France's pork farmers, already weakened after a number of difficult years. For beef farmers, sale prices now hardly cover production costs. And for milk producers, the end of quotas in 2015 exacerbated the existing crisis of overproduction.

Faced with this situation, French farmers have been calling on Brussels and Commissioner Phil Hogan to implement exceptional measures. But the European executive is more interested in finding new export markets than in direct public intervention as a way to end the crises.

On 18 July the Commission did approve a new support package for struggling farmers. "I welcome the European Commission's authorisation of a significant package, which is consistent with France's demands over recent months," said French Minister for Agriculture Stéphane Le Foll.

But for French farmers, these emergency measures are a sure sign that the CAP cannot provide solutions to the sector's problems.

Different points of view

"With the fluctuations we are currently seeing, we know that the CAP system is not enough," said Claude Cochonneau, the vice-president of the French Chambers of Agriculture.

The current CAP, which covers the period 2014-2020, is broadly export-focussed. "But in France there is real sensitivity to local markets. Opinion is more divided over the question of the EU's export capacity," the vice-president said. "In future we could imagine that the CAP would do more for farmers that position themselves on the local market."

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The disagreement over the CAP reveals a deep divide between Brussels and rural France. "Europe has a strong liberal tendency," said Cochonneau. But this economic philosophy us not shared by members of the farming profession.

"The idea that the market regulates itself, well, we've seen where that gets us," he added.

Complex process

The introduction of the new CAP was a complicated affair. In 2015, the French government gave 360,000 farms extra time to fill in their CAP declarations after the complexity of the new procedure caused serious delays.

This year, the declaration process has been simplified. But navigating the complex administrative requirements remains a big challenge for French farmers, particularly regarding the greening criteria.

"Contrary to the stated objective, this CAP is not simple," said Thierry Fellmann from the French Chambers of Agriculture. "The new greening obligations created a certain complexity for farmers."

Yet European subsidies account for the lion's share of French farmers' income. "In France and in other European countries, 80-90% of a farmer's revenue comes from subsidies. For milk producers it can even be higher," said Fellmann.

European agricultural insurance?

The different points of view will be at the heart of the debate on CAP reform. In Brussels, the question of whether to continue devoting 38% of the EU budget to agricultural subsidies is open.

"We can see that to legitimise the CAP after 2020 we will have to find other arguments," said Cochonneau.

One potential direction for the future reform of the subsidy programme is to place part of the European subsidies in an insurance scheme to protect farmers against climate or market shocks, common factors in agricultural crises.

This model has already been tried and tested in Canada. But to encourage farmers to branch out into new types of agriculture and to increase investment, Cochonneau estimated that "one third of the CAP budget" would have to be dedicated to insurance.

Only 2% of the overall CAP budget is currently devoted to insuring farmers against climate hazards.

INTERVIEW

German farmers: 'Aid is not going to help active farms'

The aid package coming the way of milk farmers will only be of help if funds are not tied to targets on reducing production, the secretary-general of the German Farmers' Association told EurActiv.de. However, he did downplay the impact Brexit will have on the sector.

Bernhard Krüsken is an agronomist and has been secretary-general of the German Farmers' Association (DBV) since 2013.

Krüsken spoke to EurActiv.de's Nicole Sagener.

Falling milk prices have put the very existence of many farms across Europe in doubt. [USDA/Flickr]

On 18 July, the EU's agricultural council agreed on an aid package to help, among others, crisis-hit milk farmers. Incentives to curb milk production will total some €150 million. Do you welcome this development?

We are not going to be fundamentally critical of the aid package, it's going in the right direction. But the question is: was this merely a political compromise that will take its time in trickling down to the farmers? It is inevitable that the money will not help active farmers, only those enterprises that have decided to scale back production.

Is it reasonable to tie reducing output to financial aid?

For active operations, the aid is no insignificant amount. It's now

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about surviving this crisis, not political quantity control. That is why the aid should focus on those who want to increase production and why it should not be tied to reducing output.

What should the German government do to ensure that the financial aid gets to the milk farmers directly?

European state aid laws are quite uncompromising in this regard. Aid can only be doled out when the authorities verify that reduction in production has been sufficiently achieved. This could lead to a rapid delay and mean that aid does not get to farmers until 2017. However, operations need to maintain their liquidity. We are therefore working under the assumption that not many outfits will take part. We want an intelligent way of working so the federal government doesn't delay in making their payments. But it is yet to be negotiated.

Most, if not all, experts cite the fall in demand in China and Russia as the main causes of this situation. Do you agree?

I don't know who is responsible beyond the fact that it is because of falling demand. The fact that we are earning 3% less on milk currently than two years ago shows that it is not just a question of supply, but demand and the markets. The lack of demand comes from the international market and has led us to these falling prices.

What effect is Brexit going to have on European farmers?

We are not expecting large consequences, even though the UK is a big market for German milk and meat. But until their exit is actually complete, and that may take some time, the British are part of the internal market and I don't see the market going anywhere any time soon.

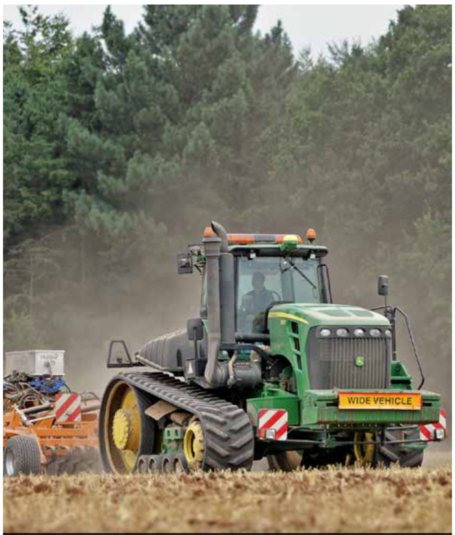
The European Commission also proposed changes to greening at the agricultural council. How do you assess this particular EU initiative?

The Commission started with high hopes and plotted the right course. But now we might even be talking about a deterioration of the situation. Due to the complicated processing and cost-risks involved with greening, many farmers prefer to play it safe and just set land aside, instead of creating conservation areas and the like. You can see that from the numbers that actually engage with greening. It's going to need more simplification.

The current dilemma is also due to a certain fiscal mechanism. The member states carry out their transactions in situ and they are checked by the Commission. We think that these checks are just unnecessary bureaucracy, which lead to the member states paying more out of their pockets. To satisfy the Commission, the member states have to up their amount of bureaucracy too. There has to be more flexibility.

Smart farming trying to find its feet in EU agriculture

The EU Common Agricultural Policy after 2020 should mobilise both direct payments and rural development pillars, in order to pave the way for the introduction of much-needed digital technologies in the farming sector, experts in precision agriculture told EurActiv.com.



Several stakeholders claim that the EU CAP should take advantage of the ongoing "digital revolution". [Chafer Machinery / Flickr]

The rising demand for agricultural products, combined with the need to protect the environment, has put pressure on policy-makers to find innovative ways to "produce more with less". In addition, price volatility in food and agricultural markets has highlighted the need to increase European competitiveness worldwide in order for the sector to survive in the long run.

Several stakeholders have claimed that the EU Common Agricultural Policy (CAP) should take advantage

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of the ongoing "digital revolution" and introduce new technologies in the sector. The concept of "digital" or "precision" farming has taken center stage in the discussion for the next CAP covering the period 2021-2027.

Precision farming is based on the optimised management of inputs in a field according to actual crop needs. It involves data-based technologies, including satellite-positioning systems like GPS, remote sensing and the Internet, to manage crops and reduce the use of fertilisers, pesticides, and water. In a few words, precision farming helps EU farmers take care of the "slightest detail" of their everyday activities in order to make their business sustainable.

The European Commission's DG CONNECT and DG AGRI currently focus on digital farming. EU research funding on digital farming will be made available under the Alliance for Internet of Things Innovation (AIOTI) where a €30 million large-scale pilot project on smart farming will be funded. In parallel, there will be calls for proposals for data-driven innovations in farming under the agriculture-related research funding in the Societal Challenge 2 envelope of Horizon 2020.

However, many challenges still lie ahead before the EU farming sector can take the critical "digital leap", ranging from funding opportunities to infrastructure capacities and skills building.

Seeking innovative ideas

The main instrument for innovation-driven thinking under the CAP's Rural Development pillar is the European Innovation Partnership for Agricultural Productivity and Sustainability (EIP-AGRI). Its fundamental aim is to create synergies between Horizon 2020 and Rural Development and to close the gap between research and practice.

Under EIP-AGRI, local stakeholders (farmers, researchers, businesses, NGOs) come together and establish the so-called "operational groups", whose main objective is to seek an innovative solution to a common problem in a country or region.

A recent EIP-AGRI Focus Group on Mainstreaming Precision Farming found digital farming faced with a number of challenges. The report pointed out, among others, that precision farming needs the cooperation of all stakeholders, as well as the training of special advisers who will be able to make innovation a reality on a farm.

"Regional training and awareness are essential to reach advisers and small and medium-sized farms, as many farmers believe that precision farming is not profitable in small farms," the report said, suggesting the promotion of sharing contracting.

Mapping the current state-of-play of precision farming in the EU, the report underlined that in arable farming, precision practices have been widely adopted by large farmers in Central and Northern Europe, with the goal of maximising profitability.

As for Southern Europe, which is already under enormous economic pressure in agriculture and at the same time faces water scarcity, the report stated that precision irrigation techniques were "essential for good management".

Commenting on the results of the report, Jean-Paul Beens, Head of Public Affairs and Industry Relations at fertiliser company Yara, told EurActiv that while key solutions and needs were identified, it lacked practical implementation recommendations to "go local".

"Given the diversity of European agriculture […] we need a profound analysis on a regional, possibly member state level. An appeal to member states for support of "NIP-Agri programmes" (National Innovation Partnerships) could bring the achievement of an improved productive and sustainable EU precision agriculture closer," Beens stressed, citing Sweden as an example.

"Its approach and adoption of precision farming tools such as the N-sensor have been mentioned in the list of documented best practices of the EIP-Agri's final report."

Broadband infrastructure

For the European Agricultural Machinery Industry Association (CEMA), adequate rural broadband infrastructure across the entire EU is an essential precondition for a successful and inclusive digital transformation in agriculture.

"Broadband access is still lagging behind dramatically in many rural and less densely populated areas of the EU," CEMA's Secretary General, Ulrich Adam, told EurActiv.

He added that new efforts were needed to avoid a future urban-rural "digital divide" and achieve the EU's target of ensuring that every company and household has broadband access at a speed of at least 30MB/s by 2020.

However, Yara, a fertiliser company which uses precision farming to increase the accuracy of fertiliser inputs, has developed different systems for Internet access

"Several of our tools work autonomously from telecom networks as long as an Internet connection is available in the proximity of the farmer," Jean-Paul Beens, Yara's Head of Public Affairs and Industry Relations, told EurActiv.

"As a company doing business internationally, we experience the creativity of farmers to adapt to new technology. For example in less developed countries, farmers transmit their field data collected with our smartphone app via Internet connections when shopping at suppliers or at gasoline stations when filling the tractor," he added.

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Digital skills

Making the digital transformation happen in the world of agriculture and rural areas will require digital skills, according to CEMA.

Faced with the rapid ageing of farmers (only an estimated 8% of EU farmers are below the age of 35), the introduction of new technologies may result in a "two-speed" EU agriculture.

For this reason, CEMA noted that developing digital skills in agriculture will make farming and farm-related jobs a more attractive and dynamic career choice in the future, and attract talent to rural areas. "We need to have public policies in place that support farmers in accessing and investing in digital technologies. Here the CAP after 2020 could play an important role," Adam stressed.

Luc Vernet, senior advisor at Farm Europe, a think tank specialising in EU agricultural affairs, shares a similar view. He said that all disruptive technologies or practices are implemented first by pioneers, as was the case in the early 1990s, with organic agriculture.

"But clearly taking into account the potential of these techniques and the specificities of EU agriculture, which is made from small to medium family farms, it's important for the Common Agricultural Policy to accompany this new trend. Farmers need to be accompanied to take the risk of change via proper policy supports," Vernet told EurActiv.

For Yara, the introduction of digital farming is like when computer programs were first introduced. "The basic functionalities are known but the further hidden potential needs to be explored, mastered and linked. Many farmers have bought equipment with advanced technology without fully utilizing its potential," Beens said.

Yara also considers the standardisation related to technology platforms as well as the need for different focus and type of training as priorities.

"Several different suppliers offer technology which is not compatible with other technologies. This brings us to the next challenge, that of standardisation."

The CAP after 2020

EU policy-makers and relevant stakeholders have already begun discussing the CAP's future after 2020.

In a position paper, CEMA urged EU policymakers to provide more flexibility within Pillar 1 (direct payments) and Pillar 2 (rural development) to facilitate access to, and the uptake of, new technologies.

"A mechanism similar to Articles 68 and 69 of the previous CAP (2007-2013) should be re-established allowing member states to dedicate 10% of their Pillar 1 budget envelope to specific projects aimed at enhancing farm holdings' productivity," the paper said, adding that this mechanism could be applied either to Pillar 1 (for between 5% and 10% of the total envelope) or Pillar 2 for any unspent budget.

CEMA also suggested a substantial shift (of up to 15% of the total budget) from the next CAP (2021-2027) to enhance research and development in agriculture.

The European machinery industry went a step further, saying that a "productivity bonus" could be introduced as part of the greening scheme.

"The concept underpinning such a productivity bonus is simple and straightforward: farmers who are able to increase their productivity while strictly following the cross-compliance requirements should be rewarded," Adam told EurActiv, stressing that such a bonus should be calculated based on Total Factor Productivity in Agriculture (TFP) criteria, which by definition include soil, water, and inputs management.

Farm Europe believes that considering the low level of profitability of EU farms, digital farming should be supported both via investment support and strong political incentives.

"Both pillars of the CAP could be mobilised to encourage investments in new techniques. Via the greening, the EU could promote digital farming, recognising these technologies as a proper way to contribute to climate objectives," Vernet said, adding that an EU-wide investment plan targeted on new technologies via rural development programmes is needed.

Vernet also noted that the CAP should draw specific attention to the transition period, which is always "sensitive", helping farmers to take risks with efficient management of schemes.

But beyond these three steps, the EU should design a clear agenda for the years to come.

"With digital farming, we have an effective tool to change the approach to the greening of the CAP. We can switch from a measure-based approach which creates red tape and administrative burdens to an objective-based approach, setting objectives and leaving enough room for manoeuvre for farmers to decide how to reach the common objectives."

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