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## **The CAP beyond 2013 – challenges and opportunities for European agriculture**

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Es gilt das gesprochene Wort

Oxford Farming Conference

**Oxford, 6 January 2011**

Ladies and gentlemen,

Thank you very much for inviting me to this key event for the farming world.

It seems that there is no better way to start a pleasant afternoon in Oxford, but to be here at the Examination schools, in the examination halls...

I know that your programme says that I am going to give my advice to business leaders in preparation for 2013... but we have a saying in Romania – if you want good advice, ask an old man! And I do not feel old enough!

Therefore, allow me to use the time we have together to give you an outline of the challenges and opportunities facing the Common Agriculture Policy beyond 2013.

There are three elements in any public-policy making: the problem, the players and the solution to the problem, that is, the policy itself, which is rarely able to address all the issues, even less to satisfy every request or concern.

But that does not mean we cannot be ambitious.

We must be, if we are to play our part in addressing so many major challenges:

- the future of farming and farmers in Europe;
- the future of our rural landscapes and our countryside;
- global food security.

The policy tool available to us is the CAP, together with the financial resources which underpin it.

This Conference, which brings together so many of those affected and interested in this reform, is clearly amongst the players and I am committed to listening.

The reform must be based on dialogue, and that is why last July I organised a broad based conference, to make sure all the views could be voiced, before sitting down to draft the Communication.

This is why, instead of providing advice, I am here to discuss the Common Agriculture Policy with you and – to the extent possible, given the timing of this reform – to look together with you at some possible answers.

The Common Agriculture Policy has never been written in stone – it is a living policy, which has changed enormously over the past 25 years. These changes have already fundamentally altered the relationship between farmers, Governments and markets.

Well over 90% of European agricultural payments are decoupled from production. In 2010, export subsidies were well under 1% of the CAP budget.

It is the markets which are now the key driver in production decisions, not European subsidies. And meanwhile European farmers have turned to new tasks, producing secure and high quality food, based on stringent production standards.

So there has been a fundamental shift in the CAP to make it market sensitive. We must now build on this, so that the CAP stays in tune with changing times and responds to new challenges.

Once more, we are engaged in a fundamental reform process of the Common Agriculture Policy.

My conviction is that at the end of it, this policy needs to be well equipped to address the challenges of food security and climate change, to preserve natural resources and to maintain territorial balance across Europe.

It should offer farmers more stability and a coherent tool-box to fight economic downturn and price volatility.

It has to be more equitable, simpler and easier to understand.

This reform is a choice that our society needs to make.

It is a choice about our food; a choice about our environment; a choice about our territorial diversity.

It is also a choice about jobs.

The CAP is about millions of farmers and millions of employees in the agri-food sector, and addresses the needs of the 500 million citizens in Europe's internal market.

These are the elements at the heart of the policy blueprint that I launched last November, these are the decisions the Member States and the European Parliament are called to make.

You know as well as I do - and I know this was one of the themes of discussion here yesterday - we cannot isolate our debate on the future CAP from the **global food issues**.

We have a duty towards our European citizens to provide for them quality, healthy food; and we also have a responsibility towards the world at large.

Not only is the world population growing, dietary patterns are also changing, especially in the emerging economies, with more meat and dairy consumption, in particular.

We can expect a 50% increase in food demand by 2030.

According to the FAO estimates, by 2050, the Earth will probably have to feed 9 billion people.

Some other estimates say that we could be more than 10 billion in 40 years.

This means that every day, we have to provide food for one hundred and forty thousand more people.

Combined with the effects of climate change, with drought and extreme weather conditions, it seems that feeding the world will be a challenge in itself.

This is a challenge for all countries; a challenge that Europe has to be ready to address, as part of the global response, but also – and we should not be shy to say so – because it is a strategic security imperative for Europeans.

If we do not take account of this now, for the period up to 2020, we may well be leaving all this far too late.

So, food production is the number one objective of agriculture and for farmers. But it would be simplistic to limit the CAP to just that. The CAP also deals with helping farmers preserve our natural resources and maintain a countryside people want to live in.

**Natural resources** are not unlimited.

To give you just one example: a quarter of Europe's water is used by agriculture – up to 80% in some regions.

We cannot win the battle of food security at the expense of permanent damage to our environment.

European agriculture needs to sustain and reinforce its competitiveness on the basis of a productivity model that combines economic, environmental and social sustainability.

We have a legacy to leave to future generations. We cannot guarantee our food security on a production model that puts at risk the capacity of future generations to meet their own needs.

So we must work to minimize the impact agriculture has on the environment and maximize its positive effects.

But if this is to be done, there is a clear role for public funding, so as to reward farmers for providing public goods which the market rarely rewards.

If we want our food to be produced sustainably, rather than in the cheapest way possible, if we want our farmers to do more to preserve soils and water, to reverse the steady loss of biodiversity, then YES, the CAP is the best way to do it!

Why?

Since subsidies are clearly needed across European agriculture - and indeed a vast majority of Member States are of this view - a European policy is the only way to deliver a fair and efficient agricultural market for producers and consumers.

Our purpose must be to encourage farmers across Europe to make the same efforts/focus on the same priorities/objectives.

And here, I would like to bring in the third crucial element of this reform: **territorial balance** - our ability to sustain agricultural production on all our territories.

Since the beginning of my mandate in February last year, I have visited nearly all member states, from North to South, from East to West.

And everywhere I hear the same tune: *Agriculture is the foundation of our rural economy.*

Of course, we have to go beyond agriculture into rural development; we have to diversify agricultural and non-agricultural activities.

But we need to preserve agriculture as the fundamental social and economic fabric of our rural societies, including in those regions where farming is difficult.

On one hand, I see this reform as a chance to lay the ground for a new public contract between agriculture and society;

- a contract where we are called to provide food and to manage more than half of Europe's land;
- a contract that gives a renewed legitimacy and credibility to the CAP.

On the other hand, since the economic situation of the world has changed, opportunities available for producers a couple of years ago are not there anymore.

We have to improve and refine our policy measures and, when needed, provide our farmers with safety belts and extra airbags.

Ladies and gentlemen,

Empowering farmers to meet the expectations of European citizens is crucial.

We have now the opportunity to reshape our policy so that taxpayers can understand better what this policy is doing for them.

I believe that the CAP **direct payments** should certainly be maintained.

Some of you will have read the Pack Report, examining the reform options from Scotland's perspective. What I can tell you is that the importance of public support for so many Scottish farmers, underlined by this report, is shared in most of Europe.

Yes, direct payments can deliver more in terms of public goods than they do today.

But their income supporting function is a must.

However there is a definite need to redefine the system, in order to link payments more closely to their role as

- income support for farmers
- recognition for the provision of public goods not remunerated by the market.

We should also base our system of direct payments on objective criteria, equally applicable to all member states.

We are thinking about economic, social, and environmental criteria. There could be others as impact assessments are on-going.

This way, we should make the system more understandable and more credible to the taxpayer, with the same rules applicable everywhere.

We are now working towards a balanced, pragmatic legislative proposal, on the principle that we cannot afford to support some sectors of agriculture by destabilizing others.

We must make sure that the support is given on the basis of objective criteria, reflecting what agriculture provides to European society and citizens, rather than on the basis of what farmers have received in the past.

The historical references for the distribution of payments have lost their relevance. For the long-term health of the CAP, we cannot run this policy in two different gears.

The policy must be fairer and more efficient.

The CAP tools need to be more inclusive and to better take into account the diversity of agricultures in Europe.

To be credible, direct payments should be fairly divided between member states, regions, different types of agriculture and categories of farmers. This does not mean a flat rate payment across the whole of Europe.

Most probably, with the application of these criteria, payment will vary – but the criteria we apply should not!

So there is change in preparation in the first pillar. In doing so, there is a key principle I have asked my Services respect, and that is simplification. For farmers and administrators. The same will hold true for the second pillar.

But in fact, in the UK, many of the changes to the first pillar have already started, in England in particular. So there will also be lessons learnt here which can benefit others – both in the UK, in Northern Ireland, Scotland and Wales, and more widely.

To accomplish its multiple functions, European agriculture needs a strong Common Agriculture Policy, more efficient and better targeted.

To maintain its legitimacy, this policy needs to be focused on **active farmers**.

I believe we should avoid making payments to people or organizations whose activity has no relationship to farming or land management. This is one of the most common criticisms that we hear from our citizens, and indeed one of the most frequent problems highlighted in last year's consultation. We must address this.

The role of this policy is not to pay bonuses to companies unrelated to agriculture.

Justifying payments above a certain level is also difficult, unless we talk about the creation of a high number of jobs.

We are currently paying large landholders, who may not actually be in need of the same level of income support as small or medium sized farmers. The proposal to establish upper limits for direct payments to individual farms ("capping") will address this.

This is why, with the member states, we have started a reflection process on these subjects.

The aim of this reform is also to improve the **overall environmental performance** of the Common Agriculture Policy.

Direct payments – the basic support for farmers, will continue to be linked to cross compliance rules.

The new element is that on the top of the basic payment, we will provide incentives for farmers to apply production methods that preserve natural resources.

It is not a penalty but an incentive.

An impact assessment is currently underway to determine the most relevant techniques. But we could think of measures such as ecological set-aside, green cover on arable land, preservation of grassland, crop rotation.

The aim is to fight soil erosion and improve water and carbon retention in the soil.

In the second pillar, via the rural development measures, the member states will have the opportunity to support farmers who want to do even more to fight climate change and to protect the environment and natural resources.

More emphasis will be put on **research and innovation**, making a better link between research and its applications in production methods.

An Innovation Partnership for Sustainable Agriculture is under preparation by the Commission.

This should provide the boost for research in this area which we know is needed.

This is about more resources but above all I believe it is about better linkages between the farming and research communities, in both directions. We need to accelerate technology transfer from the laboratory to the field.

One of our general aims is to maintain agriculture in all regions of the EU where there are still people wanting to do farming, including in **regions with particular natural handicaps**.

At the same time, we will continue to push for greater competitiveness – and for farmers to look to the market for their main source of income.

Finally, I would like to discuss with you the **security features** of our policy: name them safety belts or airbags ...

Market intervention measures will continue to be part of the future Common Agriculture Policy. They will remain important as a safety net.

The dairy crisis showed that we need tools to fight market volatility; we need tools to avoid the collapse of entire sectors.

The CAP of today has changed enormously from the CAP of the 80s and the 90s. Structural surpluses are a thing of the past and our prices in many sectors are not much different from world market levels. Successive changes have made the CAP more market-oriented.

However, the market alone is not always sufficient for something that is as strategically important as food security.

More than ever before, in the context of climate change and price volatility, we need to maintain a back-up when market fails.

The new CAP will provide member states with tools to deal with excessive volatility of farmer's income.

So these are the broad outlines of what I have proposed.

But of course, very little can be done without a **budget** reflecting the ambitions of this reform.

Every time I am getting this question – and believe me, I get it very often, I remember an old Yiddish proverb which says that “with money in your pocket, you are wise and you are handsome and you sing well too”.

I am of course well aware that it will not be easy task to negotiate the budget for the period after 2013. But again, this is one of the vital reasons why we need to change our policy and to highlight the broader benefits that agriculture provides to society.

If food security, biodiversity loss and climate change are all very important issues for decision makers – and I understand that these were issue which did figure in the UK general elections last year -, then it should also be reflected in a strong budget for a CAP that provides solutions to all these challenges.

At the end of the day, the decision on the future of the Common Agriculture Policy resides with the member states and the European Parliament – under the co-decision rules foreseen by the Lisbon treaty.

The timing of a political agreement depends on how Ministers and the MEPs respond to our proposals.

Certainly, my intention is to reach political agreement in 2012 so that we can finalize the implementing rules in 2013 – and member states can define their options before the new system enters into force in January 2014.

The European Commission's legislative proposals will be ready this summer.

We are already working on this, having in mind that a policy is a vehicle taking us on a journey – a journey defined by the expectations of our fellow citizens.

Thank you for your attention. I am looking forward to the debate to follow.