

INTEGRATING PUBLIC GOODS IN CAP

THE ROLE OF RURAL DEVELOPMENT MEASURES

REFLECTION PAPER

O P E R A



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Rural development has played a huge role in the structural changes that took place in the European agriculture and rural area in the past decade. As second pillar of the CAP, it has been appreciated as successful instrument in the modernization of the European farming, the introduction of environmental concerns in the agricultural activity as well as the promotion of multifunctional role of agriculture and vitality of rural economy.

During the public consultation process conducted by the Commission services in 2010 on the future of the CAP, virtually no stakeholder group has denied the importance of this instrument and the need to maintain it in the future. However, some debates need to take place to take Rural Development to the next level. The discussion should be on the role this instrument will play and its future objectives and focus. In a changing policy it is expected that a shift will be needed in order to better correlate the content of the instrument with the priorities and challenges lying ahead.

Voices have been heard requesting for the enhancement of the role of Rural Development as to become the central element of the policy, equally others have said that the role of the first pillar should not be diminished due to the need to ensure stable income for farmers, reduced market variability and maintenance of the production capacity of EU as to achieve food security at regional and global level.

The ways to enhance the presence of Rural Development in the development of the future European agricultural model can be summarized by either increasing the total resources available for this instrument or by expanding its scope and intervention model. The first option, meant to reach more beneficiaries, has to manage the challenge of ensuring appropriate private co-financing resources from the beneficiaries. This is no easy task especially taking into account the aftermath of the financial crisis. The second option is to use the intervention model in new areas, mainly based on individual contracts and voluntarily undertaken obligations, which will very much negatively affect on the targets to reach simplification and reduction in red tape.

The first question is: Should Rural Development have a more important role in the future CAP? If yes, where do we draw the line as to ensure a proper equilibrium between the need for structural support to further help the sustainable development of agriculture and the need to ensure competitiveness and maintenance of the production capacity of the EU?

The first role of the Rural Development pillar is to support adjustment of the agricultural activity to the new challenges and to ensure the further development of the sector. In the context of building up a policy which is meant to be a sustainable and inclusive one, this role has to be translated in concrete elements of support.

The challenge is to define what aspects of sustainability can be built more efficiently and where the public support granted through this instrument will have the biggest added value. The concept of sustainability has its three dimensions: economic, environmental and social. To ensure that these dimensions are addressed in a balanced manner, the future Rural Development instrument has to include each one of them.

The economic sustainability of the European agriculture has to incorporate the elements related to competitiveness, efficient production and investment in new technologies; knowledge transfer; capacity to adapt to market conditions and capacity to uptake supplementary costs related to new production standards.

Environmental sustainability includes better management of natural resources; their further enhancement; pro-actively stimulating biodiversity; responding to climate change and taking active measures to mitigate it.

Social sustainability can be achieved by providing better chances of a fair life for those who are involved in the sector and by

creating further opportunities to develop the local economies in the rural areas.

How can we ensure that we do not lose sight of any of these priority areas and avoid creating new unbalances between the dimensions of sustainability? Is it feasible to adopt certain agricultural models to equally answer to the importance to sustainability and also insure the production capabilities?

If we consider the agricultural sector and more generally the rural economy as a system, the measurement of its functioning must be a balance between the number of inputs entering the system and the number of outputs that the respective system generates. In concrete terms, here we can talk of a balance between the human, physical and technological resources used and the output of public goods provided to the society as a whole.

The outputs, the public goods provided to the society, need to reflect in a sustainable manner the inputs, respectively to provide sufficient and safe food for Europeans; to maintain and manage natural resources and to provide equal opportunities for people in the rural areas.

Growing food demand and the attention needed to be paid to environment are challenges we have to face when deciding the direction or the compromise that needs to be made for the future content of the CAP.

The recent price spikes and the economic crisis have contributed to a rise in hunger and food insecurity. The prospects remain negative. The *OECD-FAO Agricultural Outlook 2010-19* sees average dairy, vegetable oils, wheat and coarse grain prices 15-40 percent higher over the next 10 years than their average levels during the 1997-2006 period.

How can Rural Development contribute to the provision of public goods, especially in terms of food and environmental

security? Is productivity always the opposite of protecting the environment? Is Rural Development the instrument to communicate to farmers and society that innovative techniques and technologies are available to bridge the two concerns?

A smart future CAP needs to include, as required by many stakeholder groups, a strong instrument to better promote the implementation of the research and innovation results in the agricultural activity. This support is about the initial investments that need to be made to integrate innovation into real life activity, but also about managing the risk that comes together with major changes in the business model of the farmer.

The instability of the market prices; the rapid changing preferences of the consumer; the lack of communication within the food chain; the preferences of the processing and retail sectors are only some of the additional risks that prevent the farmer from being open to new, more efficient and sustainable production methods - hence discarding the contribution of technology in stabilising yield, prices, and therefore farmer income.

Is there a role for the Rural Development to act in mitigating the risks one farmer has to take in order to respond to the newest challenges his activity faces? Can Rural Development stimulate, through for example public-private partnerships the provision of safer innovative solutions tailored to farmer's needs and concerns?

The agri-environmental measures have provided an important contribution to the creation of a multifunctional agriculture in Europe. However, the intervention has been many times scattered and not always very consistent regarding the solutions applied within the same territory. The tendency to find one-fits-all solutions has been playing against taking into consideration the local or regional best performing solutions to manage the environment.

Various stakeholder groups have been calling for more flexibility in developing their own solutions which would boost their ability to pro-actively manage and enhance the environment. A passive conservation of the natural environment is sometimes considered not to be enough in achieving the targets for bio-diversity for example.

Should the agri-environmental instrument be structured on two levels, first to address the general concerns at EU level on broad objectives and the second to be tailored to the needs for public goods generated on local and regional level?

The more and more demanding standards impact production by increasing costs for farmers. If these additional costs are not covered by the appropriate public support or if the farmer does not have access to efficient technologies to increase his yield, the impact is reflected in higher prices and lower margins for the farmer.

Rural development has been compensating for some costs based on voluntary commitments to go beyond the standards. The tendency in the future should be to limit the increment in the compulsory requirements and to increase the importance of the schemes which provide for economic support in order to implement new requirements.

Should we envisage a system of payments in Rural Development which should not only cover additional cost but act as incentives to stimulate the production of certain public goods?

OPERA is inviting you to express your opinions on these issues and to identify if the priority for the future Rural Development pillar of the CAP should be to:

- Support structural changes in agriculture and rural economy;
- Balance the economic, environmental and social pillars of sustainability;

- Promote the provision of public goods, especially food and environmental security;
- Promote bridging solutions between productivity and environmental concerns;
- Stimulate uptake of research and innovation results and mitigate the risks associated with the changes in the farmers business model;
- Address the European and local or regional agri-environmental priorities in a balanced manner;
- Stimulate and provide incentives for the production of public goods.