



Review of the Balance of Competences - Agriculture

Response from the Institute for European Environment Policy

1 INTRODUCTION

The Institute for European Environmental Policy (IEEP) is an independent research organisation concerned with policies affecting the environment in Europe and beyond. Our aim is to disseminate knowledge about Europe and the environment and to analyse and present policy options. We undertake research and consultancy on the development, implementation and evaluation of environmental and environment-related policies in Europe, including EU agricultural policies. We work closely with the full range of policy actors from international agencies and the EU institutions to national government departments, NGOs and academics.

We are a charity with offices in London and Brussels and a network of partners in other European countries. The London office of IEEP was founded in 1980, the Brussels office in 2001. A presence was established in Finland in 2008.

2 SOURCES OF EVIDENCE

The evidence underpinning the response that we are making to the consultation is drawn from several sources. These include:

- More than 30 years of experience of EU policy, by staff, associates and trustees, stretching back to the 1970s. Relevant activities have included both academic and applied research work, sustained interaction with the European Institutions, national officials engaged in EU matters and other stakeholders from civil society, business, science, research and elsewhere. Amongst our publications is the Manual of European Environmental Policy (IEEP, 2011).
- Experience gained in undertaking work relating specifically to agricultural policy and practice and related expenditure commissioned by various sponsors and clients, including different DGs within the European Commission. Relevant topics have included the evaluation of a number of CAP measures, including cross-compliance, support for farms in Less Favoured Areas (LFAs), modulation, the environmental

impact of the CAP generally and of various CMO measures and detailed study of several aspects of rural development policy. One study informing the Commission's original proposals for the recent CAP reform examined the role of agricultural policy in delivering public goods in Europe. (IEEP 2010)

ISSUES OF COMPETENCE AND NATIONAL INTEREST

Before trying to address some of the specific questions, we would like to draw attention to two overarching issues that seem important for the overall Balance of Competences review process:

1. Arguably, there is a need to ***distinguish between three different but related questions*** concerning competence while performing the review. One relates to establishing the most advantageous level at which competences in a given sphere of policy should be established as a question of principle (ie European, national, or global). A second question applies where the European level of competence is appropriate. This concerns whether the relevant EU and Member State structures and institutions give rise to the necessary capacity and decision making arrangements to exercise competence in the appropriate way at the European level. The third is a different question about whether in practice good policy decisions have been taken in the past by actors at the European (and indeed) other levels. This helps to clarify the point that bad decisions in the past, as have been observed on various occasions at the EU level, (as well as nationally and regionally), do not necessarily imply that responsibility is allocated at the wrong level for future policy requirements, and vice versa.
2. The second point of clarification relates to ***defining the UK's interest***, a phrase that is repeatedly used in the consultation documents. Given that the UK is a part of the EU, it is clear that genuinely good outcomes for the EU as a whole are also good outcomes for the UK in an important sense. In other words, while there are clear differences in certain priorities, entirely separating UK and EU interests is not helpful. Furthermore, the debate over what would be appropriate for the 'national interest' in the specifically agricultural sphere is not easy to isolate completely from the European context within which British agriculture takes place, and the dynamics that this entails. The stability of agricultural markets, farm incomes and food security in the UK, and some of the environmental goals in the countryside, are linked to the European context and the actions taken in neighbouring countries. The substantial level of trade in agricultural produce, which can be expected to continue, and the many shared environmental interests (such as lower greenhouse gas emissions, watersheds and marine water quality, biodiversity of European value) are amongst the important linkages. National food security is likely to be greater inside rather than outside a preferential trading bloc with extensive production capacity.

In considering the national interest in the context of potentially different relationships between the UK and the EU what options are being compared? It is perhaps most relevant to weigh up the advantages of pooling aspects of sovereignty in a particular policy domain, such as agriculture, allowing for the compromises this usually entails, with the alternative. This may be pursuing greater national autonomy outside the EU or

within a renegotiated settlement with the EU. In either case opting out of the CAP, as occurs in other EEA countries, is presumably the relevant counterfactual to compare with the present situation.

The path outside the CAP has many implications, including a need to negotiate fresh relationships with the EU and a number of its policies, given its role as a powerful neighbour and trading partner. Evaluating these alternatives is a different judgement to make than assessing whether a particular set of EU policies, such as the CAP, is better or worse than those which could have been made in recent years given the current competences. It is this last question, i.e., the merits and failings of recent EU policy, which often receives the greatest attention. However, it should not be confused with the more fundamental issues of competence which the review appears intended to address.

Agricultural Policy

Certain of the questions in the consultation address EU competence in agricultural policy and the EU “approach” to agriculture in general terms. In framing responses to these questions, a few initial observations about agriculture and agricultural policy seem to apply more widely. Agriculture and food supply are and will continue to be of strategic importance and several aspects of agriculture are the subject of sustained policy intervention in Europe and many other parts of the world. However, the agenda for agricultural policy is changing, with much less emphasis on support for the production of specific commodities, and more on food security, building competitive farming systems, innovation, environmental management, support for appropriate structures, adaptation to climate change, viable farm incomes, the social acceptability of various new technologies, the role of energy production on farmland, farm animal welfare, etc.

- The question now is how competence for such diverse but related issues should be distributed in future. We share the view that the CAP is often slow to change and it has been frustrating to witness unsatisfactory compromises adopted in the face of new challenges, as in the case of the recent debate over “greening” the CAP. At the same time there has been recognition of the significance of many of the important newer issues, such as improved environmental management and greater innovation in agriculture, in the EU in recent years and so the prospect of movement in all 28 Member States. In many cases progress in Europe as a whole is not only desirable for its own sake but also permits initiatives in the UK which otherwise could be inhibited by competitiveness concerns if the country was acting alone. Improving farm animal welfare standards is a case in point. Trade-offs are unavoidable between advantages in some areas of competence and drawbacks in others.
- Many of the historic disadvantages of the CAP from a UK perspective have arisen from the focus of much of CAP support on commodity production. The newer objectives of the CAP, although not formally re-cast in the Treaty, are closer to the positions advanced by Defra and the UK has had some influence as an advocate for change (as in the Mid Term Review, Fischler Reform).
- The broad rationale for conducting agricultural policy at the EU level is strongest on certain larger issues, including common trade arrangements, standards for farm

products and agricultural inputs and determining reasonably consistent farm support levels. A common approach is logical in such areas within a single market with one set of external tariffs etc. There are many more detailed issues where a common approach is less advantageous and may be unnecessarily constraining, including aspects of land management. For example, EU rules about the number of trees per hectare on agricultural land eligible for direct payments are too rigid given variations in EU conditions.

- While high levels of intervention remain in place in EU agriculture these will influence public policy and farm management decisions in the UK even if it were to leave the EU entirely, and had no say in shaping the CAP or associated plant and animal health standards. Outside the CAP, the UK would be free to change levels of overall support for agriculture and to transfer the focus of payments away from “Pillar One” to more targeted payments designed to increase the supply of public goods. Whilst this would be desirable from our perspective it is far from clear whether future UK governments would give sufficient priority to funding the supply of rural public goods. Furthermore competitiveness issues might, understandably, constrain a significant shift away from the support patterns made available to farmers in EU countries which would remain trade partners. Support levels in Norway and Switzerland for example are much higher than in the EU.

3 CLARIFYING THE QUESTIONS

1. Should the EU have competence for agriculture and plant health?

Assuming that the single market remains fundamental to the EU, and there is continued EU competence for trade and other related areas, including partial competence for the environment, then a significant level of EU competence in agricultural policy is logical. Member States need adequate discretion and flexibility in a number of areas, including the details of land management, as noted above.

The history of agricultural policy in much of continental Europe has involved support for production, often combined with elements of protectionism. This, combined with the creation of a common market in the EEC, was one of the primary reasons for the establishment of a Common Agricultural Policy. Although the policy has evolved a long way from the commodity support systems of 1966 to 1992 it still contains a dominant thread of farmer support. This is not likely to disappear for some time, though it is being modified and reducing slowly, not least as countries with a different (twentieth century) history join the EU. Thus, without a common policy with regard to agricultural support, the continued willingness of most other EU governments to protect their farmers means that UK farmers are likely to be at a competitive disadvantage if they are excluded from the CAP support system or equivalent measures.

The CAP is, correctly, but often awkwardly, moving towards reforms which are addressing contemporary issues, including real market failures, especially, but not only, concerning the environment. If maintained, this movement strengthens the value of continuing with a common policy given the inextricable inter-twining of agriculture and environmental land management (jointness) and the scale of the environmental market failure. Furthermore,

many of the environmental market failures arising from contemporary agriculture concern the partly or wholly transboundary issues of biodiversity, water, and climate. In these cases it can be advantageous to pursue common action at a scale beyond the nation state, although there are some issues where this is less true of the UK because of its geographical position as a group of islands.

However, the rationale for EU competence is lower in scenarios where agricultural support falls to relatively low levels and potential conflicts with the internal market diminish. Then trade related issues, the need for common product standards and common environmental concerns become key to the rationale (for example significant changes to agricultural practice are required, on a continental scale to meet the objectives of the EU Biodiversity Strategy). If the Common Agricultural Policy fails to adapt to current wider EU objectives, such as the response to climate change, then the arguments of principle become much weaker and shared competence becomes disadvantageous, particularly to those Member States with a forward looking agenda. There are risks of shared competence, such as rigid rules adopted in the pursuit of reasonable conformity and the control of fraud which will always need to be offset against the merits of shared competence.

Advantages and disadvantages

2. What evidence is there that the EU approach to agriculture:

i. benefits the UK national interest?

As stated above, the merits of specific levels of UK or EU competence depend to some extent on the intensity of support offered to the agriculture sector. Insofar as the majority of EU Member States are committed to a certain level of support for agriculture, as they have been historically and continue to be, then competitiveness requirements and the need to limit variations in support between countries point to a significant level of EU competence over agricultural support policies (as with the present CAP). This does not imply that any particular level of support is beneficial per se either for the EU as a whole or for the UK.

There are tensions between pursuing shorter term economic returns and the environment and this is particularly overt for agriculture. In the UK and other Member States agriculture stewards the majority of the land and thus our physical environment. Agriculture provides an example of pervasive market failure – in that it produces, or could produce, both agricultural commodities and non-marketed non-provisioning ecosystem services. The former are rewarded by markets the latter are not. Without appropriate active collective actions through agricultural and environmental policy this balance will inevitably swing to over-emphasis on the marketed goods. This has certainly been the case historically, and although policy has been moving somewhat in the right direction in catering for the real market failures, it remains so.

The CAP since 1985 has slowly been moving in the direction of trying to address some key market failures (Allen and Hart 2013). It has already been argued that an EU single market combined with the political reality of continued support for farmers in some form in Europe,

and the environmental market failures, imply that it is highly desirable to work to steer the CAP towards a better balance between the economic and environmental contributions of agriculture.

The contribution of the single market and the jointness of agriculture and environmental management provide a good rationale for a common policy, provided that the EU institutions are capable of devising and playing their part in operating such policies without incurring excessive transaction costs or other penalties of collective action – such as inflexible measures designed to limit fraud but constraining appropriate local policies. Without this UK agriculture would feel at a strong competitive disadvantage. Evidence for this is exemplified by the recent discussion about the rate of fund switching from Pillar 1 to

2. UK farmers can see that the UK Government (rightly in our view) is more persuaded than most others that more of the CAP should be devoted to rural development and agri-environment. They are therefore concerned about being exposed to more generous subsidies elsewhere effectively benefitting equivalent production or producers in other countries (Irish dairy products and beef are often quoted as examples). Thus UK agriculture certainly feels the benefit of several aspects of a common approach.

ii. disadvantages the UK national interest?

As one of the larger net food importers in the EU, the UK historically has always favoured a more liberal trade stance. Thus a more protectionist EU agricultural policy in the EU has always been seen to be to the national disadvantage. However the level of this protection is lower now than for the last one hundred years. Export subsidisation has all but ceased, and import tariffs are now relatively low (though higher than for manufactures). In the meantime non-tariff barriers dealing with agricultural technologies, pesticides, biotechnology, animal health and welfare and the environment have become much more important. The UK has concerns in all these areas and some powerful civil society advocates speaking for these issues and thus arguing for measures to regulate trade in products which are considered unsatisfactory on environment, health, animal welfare, or other grounds. For example, the institute is amongst those with concerns about the sustainability of certain biofuel feedstock supplies from different parts of the world. The traditional UK free-trade position is now much more nuanced than it ever has been. This makes the gap between the overall EU position (itself very liberal in certain cases, such as the TTIP negotiations with the US) and the classical UK neo-liberal position smaller than in the past.

One disadvantage to the UK (and several other Member States) of the CAP as it stands within the EU budget is the distribution of expenditure. This generally is skewed towards countries with relatively large agricultural sectors (although with less benefits for newer Member States). In turn this affects the overall balance of EU expenditure and the scale of net contributions to the EU budget. This has been a major factor in explaining the size of the UK's net contribution, with a stream of consequences, including the negotiation of the UK rebate, subsequent demands from other governments for rebates and the relative dominance of distributional issues in EU budget negotiations, often eclipsing efforts to focus EU expenditure on real added value. Furthermore the UK government response has been to maximise negotiating capital on ensuring the continuation of the rebate rather than

pursuing CAP reform in the direction of more focus on public goods, which ministers have declared support for. In the recent CAP reform several Member States received larger Pillar 2 allocations during the MFF negotiations but this was not a priority for the UK government and hence the national Pillar 2 budget is too small to meet the many priorities of the forthcoming rural development programmes.

This aspect of the CAP is clearly problematic. As a distribution mechanism it is perverse; it delivers funding disproportionately to Member States with historically higher overall levels of production, to older rather than newer Member States, and to certain sectors, such as more intensive arable producers, rather than those producing more public goods, such as extensive livestock farmers. The distribution of the CAP budget does not match the distribution of environmental or social public good supply in Europe on any measure we are aware of and nor is it at all well correlated with need as reflected by aggregate regional farm incomes.

The skewed expenditure under the CAP needs to be rectified with very substantial changes over time in the distribution of support to match new objectives in a systematic way. This points to the alignment of expenditure with public good provision, subject to monitoring and review, the withdrawal of untargeted Pillar 1 measures and changes in budgetary rules on co-financing. Measures directed at public good provision should be largely or, in some cases, wholly funded through the EU budget whereas co-financing is appropriate for measures with weaker EU added value, as with many of the current PI measures which are wholly EU funded at present.

Even with a reformulated CAP and changes in the budgetary rules, the UK as a relatively urbanised Member State with an above average level of income could expect to be a net contributor to the CAP. This would be more acceptable if the value added of CAP expenditure was greater, which in principle is achievable. In a larger frame, budgetary gains in some areas, eg Horizon 2020, would need to be weighed against losses in others, and the budgetary impacts evaluated in a wider frame of substantial benefits of EU membership.

3. Do you think the UK's ability to champion a competitive food and farming sector would benefit from more or less EU action? Please provide evidence or examples to illustrate your point.

This question can be addressed at a number of levels. While the CAP maintains a high level of support for producers and for production, this may help to enlarge Europe's agricultural market share for a period but it also may reduce long term competitiveness. If more EU action overall consists of switching support from coupled to de-coupled payments and putting more emphasis on innovation and research and development, as in parts of the recent CAP reforms, then the additional measures can be regarded as contributing to longer term competitiveness. How UK governments would address such issues if the country were to leave the EU is rather conjectural. The Government would be free to reduce domestic support levels and many assume it would. However, it would cease to have significant influence on support policies within the EU which would continue to affect British producers.

Several aspects of EU policy are relevant. For example, British farm products may be more difficult to distinguish on the domestic market because of certain EU labelling rules on country of origin which may reduce marketing opportunities and aspects of competitiveness. On the other hand, greater access to EU markets and the benefits within the UK of the EU system of rules to protect traditional/distinctively local agricultural products offer clear advantages.

However, at a larger scale the promotion of longer term competitiveness raises issues considerably beyond CAP support levels. One example of this is research and development. From the late 1980s until comparatively recently, UK governments have given less priority to agricultural research and especially to development efforts and budgets have been cut. This was not to the benefit of competitive food and farming, as has been pointed out by several observers. (Foresight Project 2010). The fact that the EU has maintained a significant joint programme of food and agricultural R&D therefore has almost certainly benefitted the UK. This seems likely to continue to be the case, with greater emphasis on research and development funding in the recent CAP reform and the Horizon 2020 Programme.

A similar story applies to agricultural extension services – both those designed to help the competitiveness of UK agriculture and its environmental stewardship. These too have been cut back systematically in the UK and in several other EU countries. The possibilities to use EU measures under rural development funding programmes have not been a high priority for successive UK governments.

There is no simple answer to this question. Much depends on the nature of the EU action and a future UK government's conception of what promotes competitiveness and its willingness to support this in a scenario outside EU Competence for agriculture.

6. How might the UK national interest be better served by action being taken on agriculture and plant health at a different level of governance - either in addition to or as an alternative to EU action? For example regionally, nationally or internationally.

Clearly it would be desirable to agree and then enforce more agriculture and plant health measure at an international level, given sufficient flexibility to meet local conditions. Progress in this direction is slow however. The EU offers a step towards a wider international framework and CAP policies attempt to address some but not all of the key issues at a European scale as noted above.

The more the CAP evolves towards addressing environmental and other rural market failures the more it is necessary to agree the common objectives and frameworks for action at EU level and then let the Member States decide the precise balance and application of the measures. This is indeed the approach of Pillar 2 rural development. In the current reform there is also considerable latitude given in how the new payments system will operate – again partly this is because it is serving wider environmental and social goals the importance of which varies around the EU. Thus a less common CAP is an appropriate development provided it meets real needs and does not introduce significant distortions to competition. Provided that the major payments to farmers are decoupled from traded

agricultural commodities this differentiation within the Pillar 1 payment system is not necessarily a problem – indeed it is a political necessity. It can be seen as a correct devolution of responsibility to the appropriate level.

Stronger requirements for monitoring, evaluation of impacts, and full public disclosure would provide more confidence that diverse national regimes were being kept within EU guidelines, were effective and that major barriers to competition were not being erected. The existing EC field inspections are needed but they can be applied far too rigidly and they need to be adapted to the realities of semi-natural vegetation and other features on farms if support is to be re-directed successfully to public goods provisions and both farmers and public administrators are to have confidence in the new approach.

The external dimension

8. Agreements with non-EU countries (multilateral and bilateral free trade agreements) play a significant role in UK agriculture. How do these agreements and the EU's role in negotiating them help or hinder the UK national interest?

Successive UK governments have considered a multilateral trade liberalisation as a strategic objective for the UK, not least in agriculture. Governments have been strong participants in and supporters of the creation of GATT and its successor the WTO, and the Agreement on Agriculture.

The stance has been underpinned by the objectives of pursuing open markets, keeping domestic food prices relatively low and curtailing subsidies and certain other interventions by external suppliers. From our perspective the national interest lies in long term sustainable food systems as well as an appropriately regulated trade regime. So the agenda is changing and so too are the requirements of international processes and agreements. Irrespective of where national interest lies, one can only conjecture whether the agricultural provisions in GATT/WTO and other agreements would have come about in their present form if national governments had been the negotiating parties rather than the EU. It seems rather unlikely given the diverse views of European governments and the substantial negotiating power that the EU has exerted over time. In practice it is very doubtful that the UK could have advanced its own goals (however defined) more effectively as an independent actor than as a member of the EU. In our sphere of interest it seems reasonable to assume that the EU position, for example in relation to “Green Box” rules within the WTO, will be closer to UK interests, than the US position where public good provision from agriculture has tended to be given less legitimacy or political priority.

Similarly the existence of the EU, with a sizeable group of the former colonies and dependencies of Member States has meant that the Lomé agreement and its successor arrangements almost certainly have been stronger for the fact that such a large range of countries are bound up in the same agreements. The alternative might have been more difficult to defend in broader trade negotiations and have provided less benefit to all participants.

These are the strength in numbers arguments. The EU, representing 28 Member States and

500 million people, has much greater weight and capacity than individual Member States pursuing their narrower and different self-interests. In principle this is probably a greater benefit to countries with relatively open economies like the UK.

11. What evidence can you provide which shows the effect, or lack of effect, of EU biofuel support policies on agricultural commodity markets and food prices?

EU biofuels policy has a number of flaws in our view, including a failure to take sufficient account of the true impacts of the use of these fuels on the environment and on the net emissions of greenhouse gasses. When such factors are accounted for properly the anticipated public benefits of biofuel use are much lower than imagined at the time when the policy was introduced. In some cases there are no net emission reductions achieved by the use of conventional biofuels. (Bowyer 2011)

The institute has undertaken a review of the literature concerning the impacts of EU biofuel use on a range of agricultural commodity prices. (Kretschmer et al 2012). This found that the impact of EU biofuel support policies was to raise the price of certain commodities above a baseline level; oilseed rape was one clear example where significant price increases were traceable to biofuel policy. The magnitude of this effect is quite variable and there was considerable variation in the estimates presented in the literature. Impacts on retail food prices were more difficult to estimate. The report contains more detailed results.

Funding

12. How far do rules around support to UK farmers and growers through EU funds help or hinder the UK in meeting its objectives for the sector? You may wish to focus your answer around one or more of these areas specifically (i) direct payments (ii) single common market organisation (iii) rural development.

IEEP supports the general approach of successive UK governments that direct payments (i) should be decoupled from production, (ii) should be seen as transitional measures to bring about the evolution of the CAP to a more rational policy. The successive reforms of 1992, 2000, 2004 and 2013 do move in this direction – but at a disappointingly slow pace and with some worrying lapses (e.g. the expansion of the range of commodities which can be coupled).

We consider that the commensurate phasing down of resources available to the CMO, and the development of rural development measures which we would have hoped would have expanded much more rapidly than they have, are also in the UK national interest.

The ability to develop useful national agri-environmental programmes within an EU framework – without losing the support of farmers who have to take the actions on the ground - can be viewed as one of the successes of the CAP. This is another example of where the UK has provided thought leadership in the EU, helping to initiate agri-environmental measures in the 1980s and developing these to their present position of covering almost two-thirds of England, for example. It is quite difficult to imagine that such progress would have been possible in a UK outside the CAP given political pressures to take

shorter term view.

As noted above, a number of detailed rules can be over restrictive, for example in relation to farm level measurement of features and the treatment of minor cross compliance offences (such as missing ear tags on cattle).

Future challenges and opportunities

13. What future challenges and opportunities do you think will affect sectors discussed in this report?

The present policy reform just agreed and now to be put in place until 2020, is not the mature CAP. It is helpful that a much greater emphasis has been put in place in the policy for switching EU agriculture onto a path of sustainable development and the need to incentivise the delivery of higher standards of environmental land management. Because of the sheer diversity of the EU and of the environment, and the challenge of avoiding high administrative costs, this is never an easy task. However, because of the unavoidable close inter-dependence of food production and the environment – each depends on the other, then manipulating agro-environmental policies is a necessary route to progress this. Probably more could be achieved through market measures and through regulation but the role of public incentives is likely to persist, as demonstrated by the history of organic farming or the difficulties of managing flood water on farmland in the interests of wider society. These policies can be difficult to devise without being rigid or cumbersome or under-ambitious. Nonetheless it remains necessary and mutual learning on a European scale has advantages whatever the fate of the CAP.

Anything else?

15. Are there any general points you wish to make which are not captured in any of the questions above?

In our view the issues of climate change, and water, soil and biodiversity protection (all in their own right, but also as they are intimately connected to food production) merit a larger public budgetary expenditure than they currently receive. The needs are greater than often appreciated, with potential expenditure on an EU scale around the current scale of the CAP (see for example Hart et al 2012). This implies that substantial funds are likely to be needed to maintain rural public goods over the long term, whether they are directed through the CAP, an alternative EU channel (such as a new rural environment fund) or are derived from national sources, as in Switzerland. Changes in competence would not change this underlying fact.

References

Allen, B., & Hart, K. (2013) Meeting the EU's environmental challenges through the CAP – how do the reforms measure up? *Aspects of Applied Biology*, No 118 pp 9-22

Bowyer, C. (2012) Anticipated Indirect Land Use Change Associated with Expanded Use of Biofuels and Bioliquids in the EU. IEEP. London.

Cooper, T., Hart, K and Baldock, D., (2010) *The Provision of Public Goods through Agriculture in the EU*. A report for DG Agriculture, IEEP, London.

Foresight Land Use Futures Project (2010), Final Project Report, The Government Office for Science, London.

Hart, K., Allen. B., Lindner, M., Keenleyside. C, Burgess. P., Eggers, J., Buckwell, A., Land as an Environmental Resource. Report for DG Environment. IEEP. London

IEEP (2011) Manual of European Environmental Policy 2010, Earthscan

Kretschmer, B., Bowyer, C., and Buckwell, A. (2012). EU Biofuel Use and Commodity Prices: A Review of the Evidence Base. IEEP. London