



# Towards a New Common Agricultural Policy

Comments from the Danish Government  
to the Commission's Public Debate



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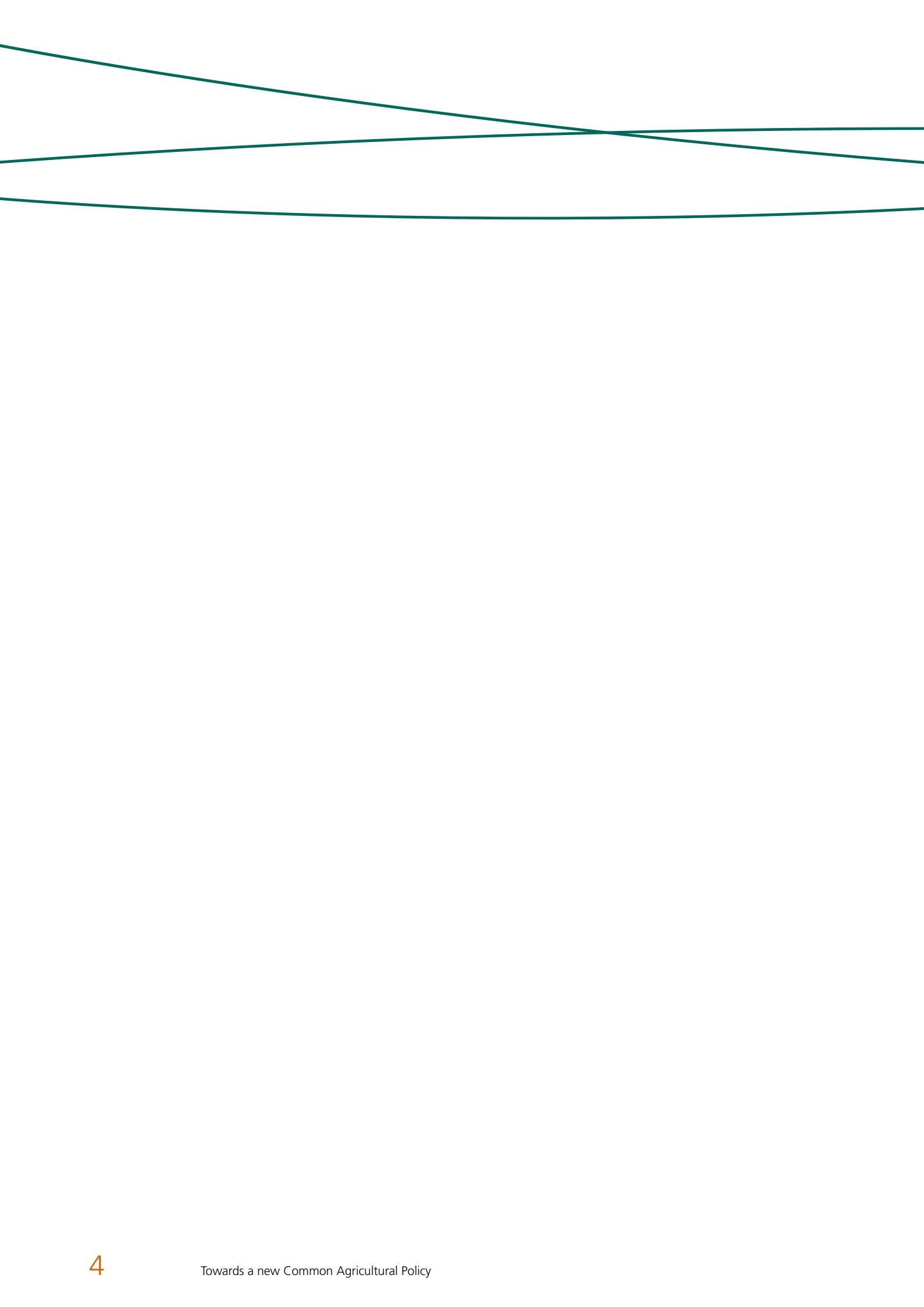
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Photos: Colourbox.com  
ISBN 978-87-7083-871-9

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## Summary

This paper represents the response from the Danish Government to the European Commission's public debate on the Common Agricultural Policy's future, objectives, principles and contribution to the 'Europe 2020' strategy.

Without prejudice to the outcome of the negotiations of the new multi-annual financial framework for the period after 2013 and the potential derived budgetary adjustments, the ideas presented in this paper describe a way to organize the Common Agricultural Policy within a given budget in the next financial perspective until 2020, in order to ensure the creation of added value to EU as a whole by fostering Green Growth.

The Danish Government holds the opinion that the trend in the recent reforms and market orientation of the Common Agricultural Policy should be continued and that the Europe 2020 Strategy is an opportunity to think ahead, also in the agricultural and food sector. In fact the targets of the Europe 2020 Strategy should be included in the future Common Agricultural Policy, especially by focusing on research, development and innovation in the agricultural sector.

The European agricultural sector's ability to survive in the future is closely linked to the sector's capacity to be innovative and actively use its professionalism, rather than rely on classic support mechanisms.

From a Danish point of view the Common Agricultural policy should in 2014-2020 have a much stronger focus on handling the new challenges and delivering public goods.

The common Agricultural Policy has the potential to be part of the solution to many of the new challenges and contribute to explore new earnings and a sustainable development. For instance how to deliver efficient water and biodiversity management, food safety, handling climate change and higher environmental needs and green energy.

One way of rethinking the Common Agricultural Policy is to create a more targeted and modern Pillar One and Pillar Two during 2014-2020. The new direct payment system could be based on a basic premium available to all farmers – on a regional level. Another part could be paid to farmers as a top up for delivering public goods. And it should be kept simple. Pillar Two should have a stronger focus on projects which include innovation and development in the rural areas through supportive framework conditions (eg. educational programmes, new technologies etc.). This is to secure green growth in line with the Europe 2020 strategy.





## Why do we need a European Common Agricultural Policy?

The Europe 2020 strategy underlines the need for a well functioning internal market based on fair competition and trade.

The future Common Agricultural Policy should therefore continue to secure a level playing field for all member states, and the enforcement of EU competition rules and state aid rules should be a fundamental prerequisite for the Common Agricultural Policy.

Only through One Common Agricultural Policy can equal conditions for agricultural production in Europe be assured. Without One Common Agricultural Policy, we risk re-nationalization, which would lead to 27 different agricultural policies in the EU and have huge negative impacts on the functioning of the Internal Market as well as on the agricultural and food sector's global competitiveness and thereby harm EU consumers.

European consumers are concerned about environment and nature protection, climate issues, animal welfare and food safety. A well-functioning internal market of 500 million consumers has many advantages when it comes to dealing with these issues, for example through common rules on food safety, environmental standards, animal welfare norms, trading standards and labeling rules.

The Common Agricultural Policy within the internal market settings is therefore a proper framework for enacting regulation and targeting activities which ensure that agriculture and food production can meet modern consumer's growing expectations for sustainable and healthy food products and for protection of nature, and hence has the potential of being the most important and efficient regulatory framework to deliver public goods to the European tax payers.

The future economic growth lies also in the growth markets outside the EU. It is therefore essential to ensure that the Common Agricultural Policy is developed in a direction that ensures continued market orientation and openness to trade with our main trading partners Japan, USA, Russia and emerging markets in Asia and Latin America. It is therefore important that European Agriculture ensures the comparative advantage in the global market. Common EU regulations and standards could in that context be the basis of shaping global standards of regulation and trade within the framework of WTO.

Also from a development policy perspective, the Common Agricultural Policy should be part of the continued process of creating an open and free market for agricultural products. The EU should hence strengthen its leading position in relation to ensuring trade liberalization and market access to developing countries.



## Why should we reform the CAP and how can we make it meet society's expectations?

The agricultural sector has over centuries contributed to the prosperity of Danish society. A similar contribution is characteristic in other member states. And despite the set back due to the economic and financial crisis the agricultural sector must also be part of the future economic growth. And there are big potentials.

The future of the Common Agricultural Policy should be consistent with the Europe 2020 Strategy to help ensure green growth that enhances the global competitiveness of European food sector.

The Commission has set some ambitious goals in the new Europe 2020 strategy. The agricultural sector is to be seen as any other sector in our modern economy and the Common Agricultural Policy is to contribute to intelligent and sustainable growth in the future. To meet this goal there is a need to have a closer look at the present policy instruments.

The "Health Check" of the CAP in 2008 represents the framework for the Common Agricultural Policy until 2013 and provides increased market orientation, greater focus on the new challenges (water management, biodiversity and climate change, renewable energy, and innovation concerning these targets) and a reduction of direct farm subsidies. This trend should be continued in the coming reforms.

This will require an approach which ensures that there will be delivered public goods, both when it comes to direct payments as well as in the rural development policy. This approach could change the traditional understanding of EU farm subsidies.

One way to do this is to let direct farm subsidies in the period 2014-2020 be payments to farmers for delivering public goods which are mainly area based, for example, environment and climate related schemes and measures that ensure high water quality.

A gradual change of the direct farm subsidies will impact existing instruments of the rural development policy, thus providing an opportunity to reframe the second pillar.

Rural development funding may instead be targeted for the period 2014-2020 to more individual or local-oriented projects or specific schemes which serves the purpose of a New Common Agricultural Policy and is in the interest of the farmers as well as of the citizens in the rural areas. Rural Development Policy can thus focus on the continuing sustainable development of the rural economy in general and of the agricultural and food sector in particular, in order to grasp opportunities and adjust the production to the new challenges. This will include the traditional food sector as well as non-food products such as bio-energy, environmental technology, mitigation of CO<sub>2</sub>, methane and other green house gasses etc.



## What tools do we need for tomorrow's CAP?

One way of rethinking the Common Agricultural Policy is to create a more targeted and modern Pillar I and Pillar II.

### A New Pillar I

The new direct support could be based on a basic premium available to all farmers – on a regional level. Another part could be paid to farmers as a top up for delivering public goods.

And it should be kept simple. The public goods under a New Pillar One should be broad area based schemes that include a large number of farms or covers a large surface.

The public goods could be (examples):

- Handling climate change and energy related issues.
- More efficient water management.
- Environmentally friendly farming.
- Organic farming.
- Improved animal welfare.
- Less Favoured Areas.

The public goods should be clearly defined. The direct support to European farmers would be linked to delivering specific public goods in a transparent and simple way.

At the same time it should be up to each member state to choose where to focus the activities. Each member state has specific needs. The various public goods demanded vary from country to country and between regions. In Denmark water management could for example be one of the target areas of a New Pillar One.

The advantage of this approach is that it includes an opportunity to build incentives into the direct payment system, which will both create more added value at the European level and benefit European consumers. That is incentives for the individual farmer to make changes, which in many cases will challenge, develop and convert existing production methods in response to a specific new challenge. It will however be up to the individual farmer, whether he or she wants to participate in the model or not.



A New Pillar One could for example target farmers, who make an extra effort to reduce an agricultural productions effects on water quality in adjacent rivers and streams and hence on the quality of groundwater. The main part of the implementation of the Water Framework Directive would hereby be dealt with within a new Pillar One.

It could also be possible to target farmers who are actively working to reduce climate impacts of the production by reducing green house gas emissions, i.e. methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O) as well as usage of production methods that improves carbon storage (sinks). The measures will enable the agricultural sector's ability to support the implementation of the non-Emission Trading System reduction targets included in the EU's climate- and energy package.

Likewise it could be possible to target farmers who use organic or extensive farming methods that increase biodiversity, or methods that improve animal welfare. Farmers who make an effort in reducing the use of pesticides in the production and thereby ensures more environmentally friendly farming could be granted a top up. Another possibility is to target support to extensification of agricultural practices on soils with low productivity and hereby ensure basic nature and landscape management.

Support for less-favored areas (LFA) in the period 2014-2020 should be based on common objective criteria's, thereby leading to a reduced application compared to the current practise, and thus be a public good in line with other public goods. However the criteria for less favored areas should be amended so support also can be given to areas where production is limited by the requirements of EU regulation such as the Natura 2000 Directives, obligations regarding High Natura Value Areas, the Water Framework Directive and the Nitrates Directive and these areas would hence be equated with mountainous areas.

## A new Pillar II

When it comes to a New Pillar II, it should be a specific goal to ensure activities that promote sustainable green growth and development across different sectors in the rural societies as a whole, and safeguard an effective response to the new challenges or contribute to exploring the possibilities for new earnings.

In line with the Europe 2020 Strategy's objectives rural development policy could ensure global competitiveness through more individual project-based or location-specific schemes focusing on framework conditions such as further education, research and innovation and development and demonstration of new technologies, making the farmers more capable of handling the new challenges and opportunities.

These specific projects could be (examples):

- Growth and innovation
- Green energy, environment, nature or climate change protection
- Animal welfare and animal health
- Food quality and safety
- Advising farmers on crisis management
- Ensuring attractive living conditions





### Growth and innovation

There is a need to develop cost and environmentally efficient technologies, and develop new management processes and production processes in order to reduce production costs. A good example is the breakthrough of intelligent spray booms to reduce pesticide consumption, which is expected within few years.

The development potential is huge and include products that are not traditional agricultural products, i.e. products not covered by the Treaty's Annex 1, such as ingredients, enzymes, and other non-foods, as well as the development of innovative technologies for biogas and renewable energy.

There should therefore be an instrument in the Rural Development Policy that promotes a coherent approach to innovation, development and demonstration of knowledge and technologies. Such an instrument will help to ensure green growth in line with the Europe 2020 Strategy.

### Green energy, environment, nature or climate change protection.

There are environmental efforts which fall outside the general arrangements within the New Pillar One, where location-specific solutions are needed and where specific methods of operation can achieve a given goal. There should therefore be specific arrangements to ensure a favorable outcome, for instance regarding projects which aim at optimizing the use of sustainably produced biomass for energy production as well as projects which secure water quality, biodiversity and CO<sub>2</sub>-mitigation, plus projects that secure the creation of wetlands, sustainable forestry management, afforestation etc. to secure and enhance environmental and nature values in the rural landscape and also contribute to the binding of CO<sub>2</sub> and the creation of recreational values for European taxpayers.

### Animal welfare and animal health

The Commission's animal health strategy focuses on prevention rather than cure. This is a step in the right direction. EU should play a key role in ensuring uniform preventive measures across Europe, given that diseases cross borders, and that there is a common interest between Member States when it comes to prevention. In the light of the work of the Commission with this new animal health strategy it could be appropriate to consider the possibility of creating an opportunity to target the existing veterinary funds e.g. to strengthening the control of livestock diseases. This should be done through innovative and new approaches.

### Food quality and food safety

In a globalized world with cheaper products from overseas and high consumer demands the production of quality goods will become the food sectors strongest weapon. Rural development policy can play an important role in enhancing the food sector's competitiveness at both local and global markets and offer consumers quality food in the form of fresh and accessible products, including products targeting specific groups, for example products for catering / food service, etc.

### Advising farmers on crisis management

The Export refunds scheme is expected to be abolished from 2013, but there should also be a reduction of the remaining schemes for intervention, private storage and other market measures. Market measures such as intervention and price support should either be stopped or maintained at a minimum, as a real safety net. A safety net that provides a floor under the market under extreme price fluctuations, and only is activated for short periods of time. At the same time, it is natural that the agricultural and food sector also handle risk as part of the general management. This refers to the use of futures and similar instruments that are market-based solutions. There could be EU-funded initiatives that help educate and advise farmers in managing risk through different market based solutions with the aim of reducing risk.

### Ensuring attractive living conditions

It should be attractive to live and work in all parts of Europe. The rural development policy must continue to interact with the overall growth and economic policies, while addressing specific rural challenges and opportunities. The agriculture and fisheries sectors have many positive secondary effects on the rural areas, and are of major importance for creating economically sustainable and attractive living conditions. Initiatives aimed at the agricultural and other sectors should therefore also be assessed on the effect they have on the living conditions in the rural areas.



### Conclusion

The Danish Government holds the opinion that the Europe 2020 Strategy is an opportunity to think ahead, also when it comes to the agricultural and food sector.

One way of rethinking the Common Agricultural Policy within a given budget in the next financial perspectives until 2020 is to create a more targeted and modern Pillar One and Pillar Two. The new direct payment system should have a structure which gives incentives for delivering public goods and the new rural development policy should have a stronger focus on projects which include innovation and development in the rural areas to address the new challenges.

The common Agricultural Policy has the potential to be part of the solution to many of the new challenges and to contribute to explore new earnings and sustainable development in the European agricultural and food sector, solutions which are crucial when it comes to ensuring green growth in line with the Europe 2020 strategy.

# Dansk Resumé

## Danish Summary

### På sporet af en ny fælles landbrugspolitik

Dette papir er den danske regerings høringsvar til Kommissionens offentlige debat om den fælles landbrugspolitik fremtid, mål, principper og bidrag til "Europa 2020"- strategien.

Uden at foregribe resultatet af forhandlingerne om de nye flerårige finansielle rammer for perioden efter 2013, og potentielle afledte budgetmæssige justeringer, beskriver dette papir én måde at organisere den fælles landbrugspolitik på, inden for et givent budget indtil 2020 med henblik på at sikre øget merværdi i EU som helhed ved at fremme Grøn Vækst.

Den danske regering er af den opfattelse, at tendensen i de seneste reformer og markedsorienteringen af den fælles landbrugspolitik skal fortsætte, og at Europa 2020-strategien er en mulighed for at tænke fremad, også i landbrugs- og fødevarerektoren. Europa 2020-strategiens mål bør være en del af den fremtidige fælles landbrugspolitik, navnlig gennem øget fokus på forskning, udvikling og innovation i landbrugs- og fødevarerektoren.

Den europæiske landbrugs- og fødevarerektors evne til at overleve i fremtiden, er tæt knyttet til sektorens evne til at være innovativ og aktivt bruge sin faglighed, snarere end at basere sig på klassiske støttemekanismer.

Fra et dansk synspunkt skal den fælles landbrugspolitik i perioden 2014 - 2020 have et meget stærkere fokus på håndtering af nye udfordringer og at levere offentlige goder.

Den fælles landbrugspolitik har potentialet til at være en del af løsningen på mange af de nye udfordringer, og at bidrage til at udforske nye indtjeningsmuligheder og en bæredygtig udvikling. For eksempel hvordan man kan skabe en effektiv vandforvaltning og forvaltning af biodiversitet, fødevarerikkerhed, håndtering af klimaændringer, højere miljømæssige hensyn, og levering af grøn energi.

Én måde at nytænke den fælles landbrugspolitik på, er at skabe en mere målrettet og moderne søjle I og søjle II i perioden 2014 - 2020. Den nye ordning for direkte betalinger kan bestå af en grundlæggende præmie til rådighed for alle landbrugere - på regionalt niveau. En anden del af søjle I kan udbetales til landbrugerne som en top op for at levere offentlige goder. Og det bør være enkelt at administrere. Søjle II kan have et stærkere fokus på projekter, der baseres på innovation og udvikling i landdistrikterne, ved hjælp af understøttende rammebetingelser (f.eks. uddannelsesprogrammer, ny teknologi osv.). Dette er for at sikre Grøn Vækst i overensstemmelse med Europa 2020 strategien.



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