

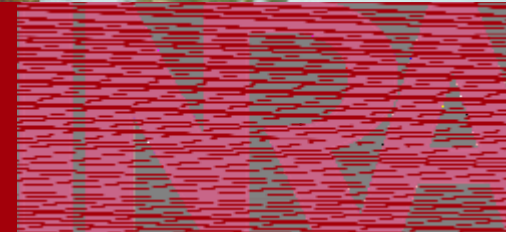
A new Common Agricultural Policy for a new EU Agricultural Model

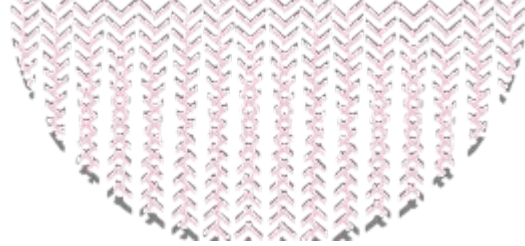
Hervé Guyomard
INRA Paris, France



AgEng 2010 - September 6-8, 2010
Clermont-Ferrand, France

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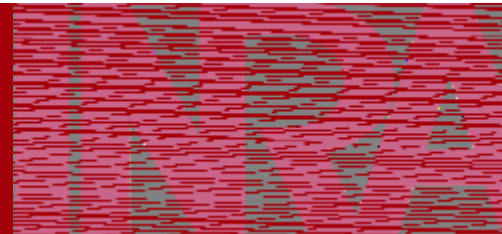


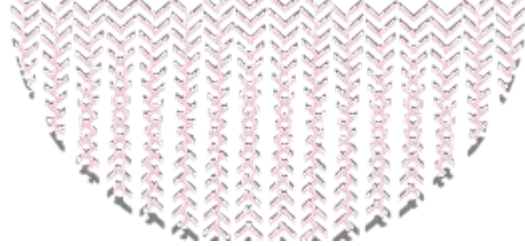


Structure of the presentation



- A. World and EU agriculture at the crossroads**
- B. World and EU agricultural policies at the crossroads**
- C. Agricultural policy objectives and instruments**
- D. Application to the CAP**

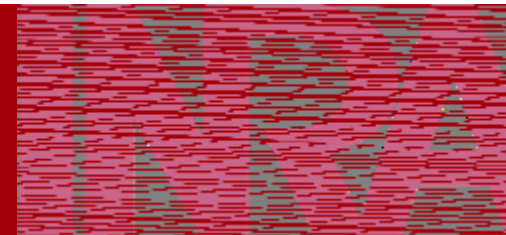




A- World and EU agriculture at the crossroads



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How to feed more than 9 billion people by 2050 while preserving natural resources and the environment?

This is not just a matter of calculating how much food is needed and then producing it

- Access to enough food at affordable prices that is safe to eat and nutritionally balanced

Economic growth and development, poverty alleviation and income distribution
International and national macroeconomic policies

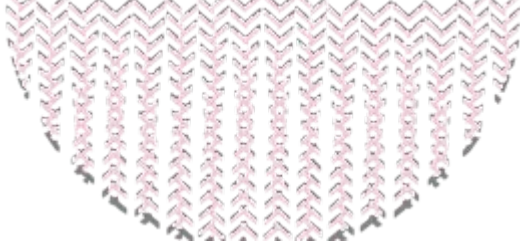
- People's consumption habits of developed countries / richer households cannot be generalized

Food consumption habits will have to adapt, notably by reducing losses and wastage
Nutritional policies
And in low income countries, both obesity and under nutrition



This is not just an issue of demand and supply

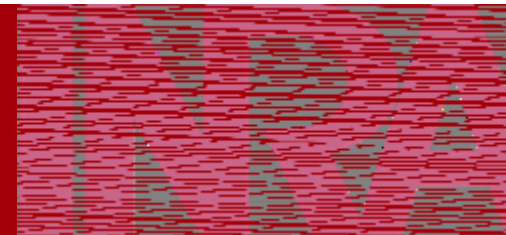
- **Sustainable development of agricultural and food systems worldwide**
 - Depletion of fossil energy, protection of soil and water resources, preservation of biodiversity, climate change
 - While producing more food, and energy and industrial goods to substitute petrochemical products, farmers will have to produce using less fossil fuel and in an environmentally friendly way
 - They also will have to provide environmental and rural services (water management, biodiversity protection, carbon sequestration, diversified and open landscapes)
 - Agricultural policies, interlinked with energy, environmental and regional (rural development) policies
 - **Produce more, better and other things: what role for public policies?**
 - **In addition, instability (speculation)**

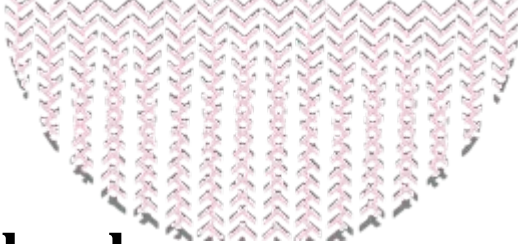


B - World and EU agricultural policies at the crossroads



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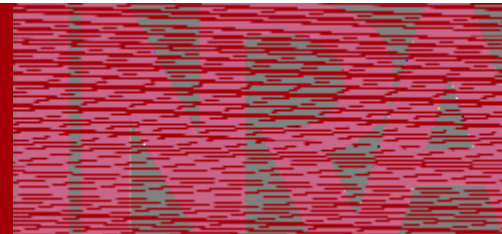


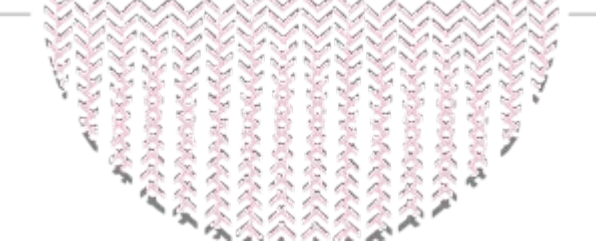
This is true at world level

- **Failure of the WTO Doha Round mainly because of the agricultural dossier: why?**

Analytical framework of agricultural talks

- No distortive agricultural policies (fair playing field)
- Three pillars (X, M, domestic support)
- **Diverging positions between countries according to their agricultural interests**
- **Interests of developing / least developed countries very partially addressed**
(special and differential treatment provisions essentially through longer time periods for implementing agreements)
- **Environmental and social issues very partially taken into account** (working groups)
- **Doubts that the WTO analytical framework is adapted to the global food challenge**
 - Regular but unsuccessful calls of the FAO for more (coupled) investments in agriculture
 - Agricultural price and income instability
 - Environment





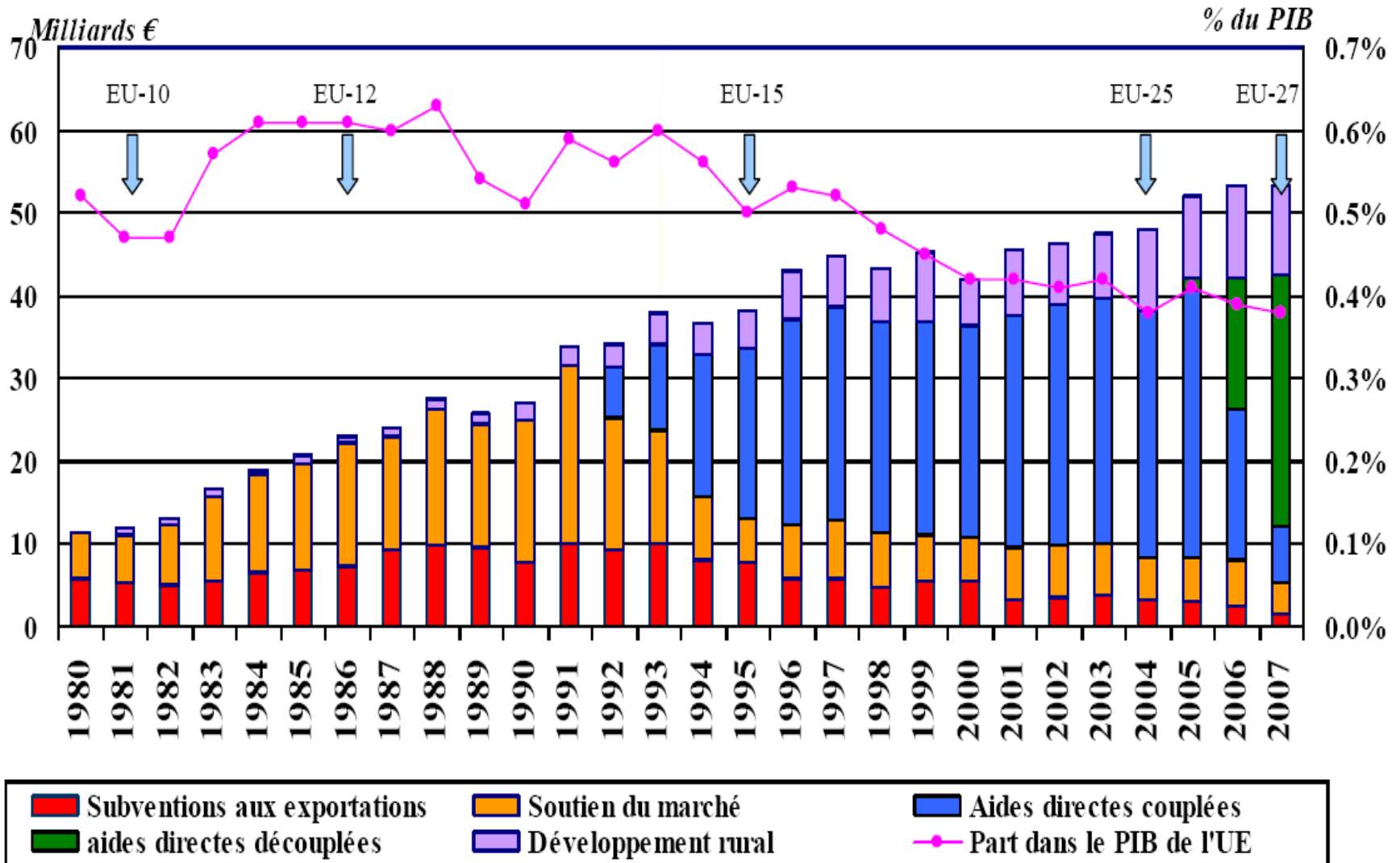
This is true in the EU

Very large divergences among MS and within each MS as regards CAP budget, objectives and instruments

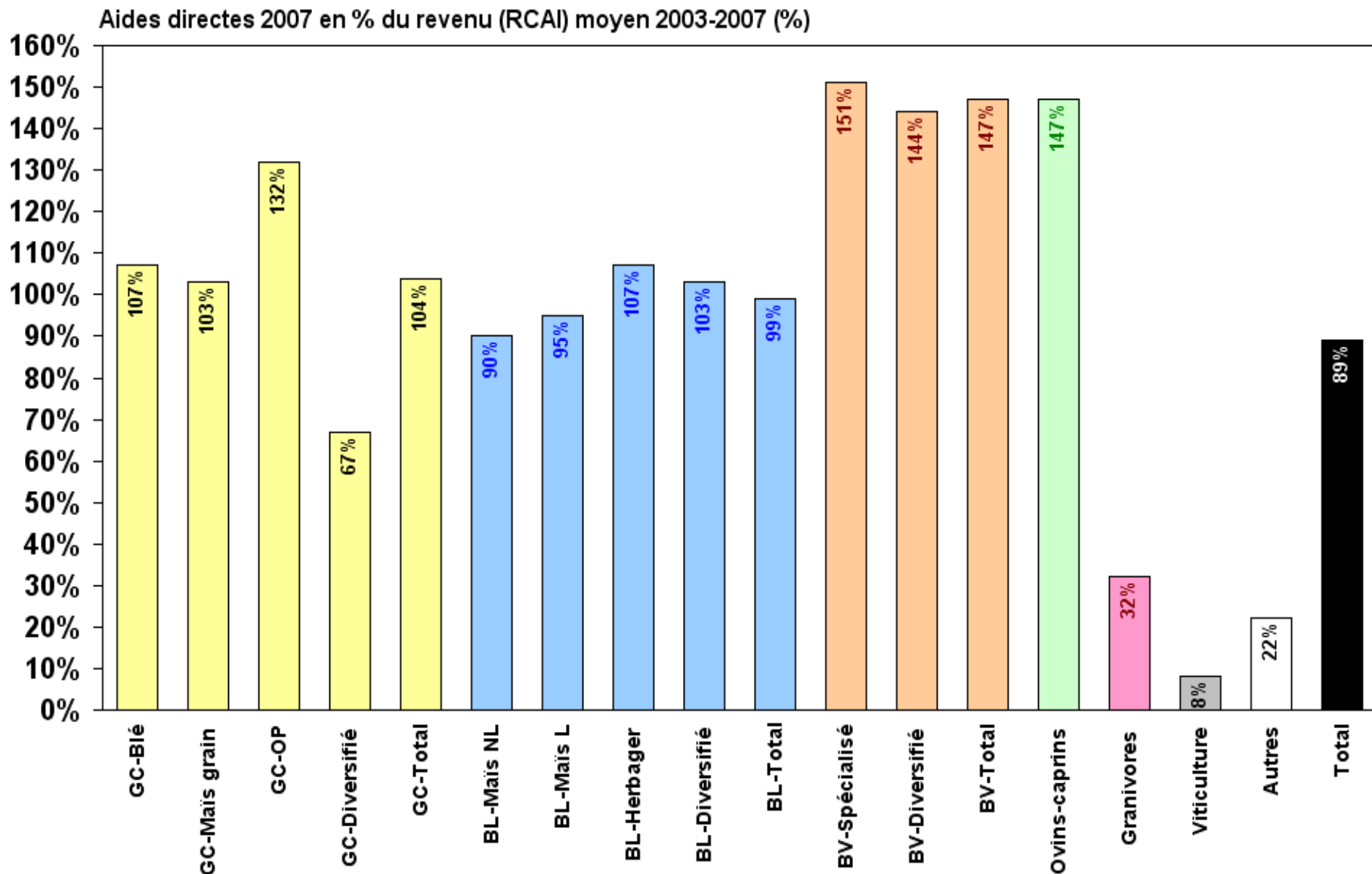
Despite a continuous reform process since around 20 years!

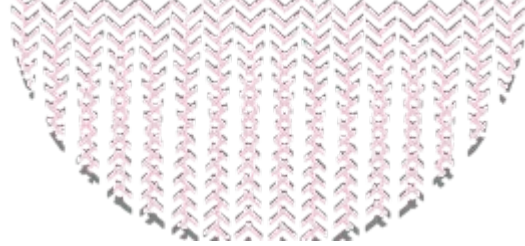
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CAP budget 1980-2007



Direct Aids in French Farm Incomes (2007 aids on average incomes 2003-2007)

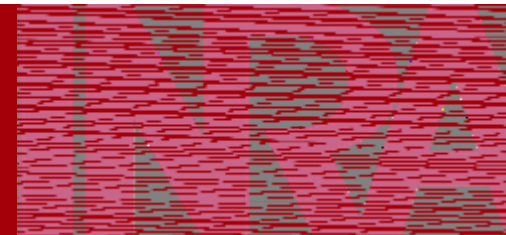




C - Agricultural policy objectives and instruments



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Agricultural policy objectives and instruments

Reading key of public economic theory

To what extent government intervention is justified in agriculture?
How should governments intervene?

Public economic theory deals (notably) with market failures

Market failures occur when freely-functioning markets (without government intervention) fail to deliver an efficient allocation of resources : Private and social costs (benefits) diverge

When markets do not bring about economic efficiency, there is a clear economic case for government intervention : Such an intervention is in the public (society) interest

They are of course other cases for government intervention, notably equity issues when markets alone generate an unacceptable distribution of income and social exclusion, as well as geo-strategic considerations

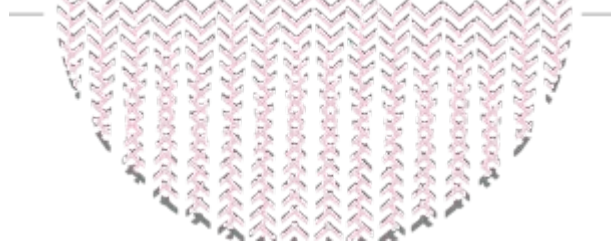


(1) Global food security

- The failure market generating mechanism lies mainly on the consumption side
- Domestic agricultural production is only a substitute for other sources of supply (imports, stocks)
- However economic development issues in low income countries

(2) Household food security

- The failure market generating mechanism lies mainly on the consumption side
- However agriculture as main source of agricultural and rural households in low income countries

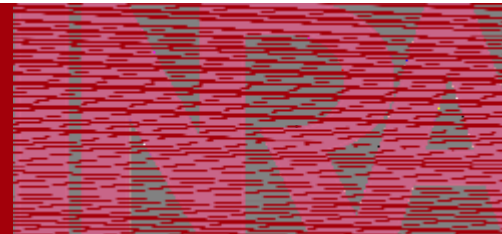


(3) Food safety and more generally (insufficient) information on the characteristics of the goods

- National and international rules and legislations
- Information policies (labelling, standards, norms, etc.)

(4) Market power

- A few buyers or sellers are able to exert significant power over prices
- Competition policies
- Collective organisation of agricultural producers





(5) Instability of agricultural prices and incomes

- **Market failure because risk management markets are incomplete (systemic risks)**
- **Crisis (public safety nets) and “normal” fluctuations (contra-cyclical payments, public support to private risk management instruments to allow all farmers to contact)**

(6) Rural development and viability of rural areas

- **Cohesion, equity and efficiency**
- **The market failure generating mechanism is employment**
- **In addition to compensation of natural handicaps, targeting on private and public services be they provided by agricultural producers or by non-agricultural producers**



(7) Externalities (environmental externalities)

- **When the action of one agent influences the well-being of another consumer / the production possibilities of another producer in an indirect way (in a way that is not transmitted by market prices)**
- **Positive and negative externalities**
- **Positive externalities tend to be under-supplied and negative externalities tend to be oversupplied**
- **Room and legitimacy for government intervention in order to enhance positive externalities / reduce negative externalities**

- Public goods / bads as a particular case of externality

When all 'consumers' consume the same quantity / amount of the good

- Environmental positive / negative externalities and public goods / bads

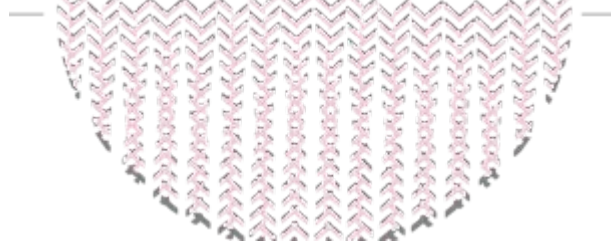
Soil

Air and water

Biodiversity

GHG

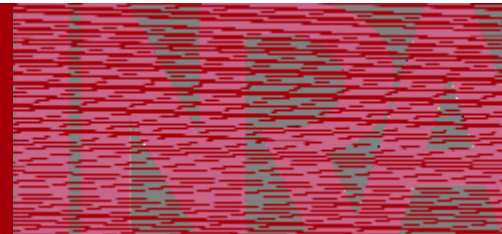
Agricultural landscapes



D - Application to the CAP



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Application to the CAP

(1) Security (animals, plants, farmers and consumers / citizens)

- EU / MS legislation, norms and standards, labelling, information

(2) Agricultural price and farm income stabilisation

- Public safety nets (intervention mechanism); contra-cyclical payments?
- Private instruments (futures markets, insurance; cf. public support to risk management markets)
- Complementarity of tools and quantitative simulations
- Cf. Antonio Fernandez Torano presentation

(3) Distribution / repartition of value added in the food chain

- Competition rules in the food sector, farmers' organization and contracts

Application to the CAP

(4) Rural development

- Efficiency, equity and cohesion
- Compensation of natural handicaps
- Targeting on public and private services in rural areas

(5) Environment

(6) Research and research-development

Transition phase



Environment

Correction of negative externalities and provision of positive externalities / public goods

Red and green ticket policy / strategy

(a) Legislation and mandatory standards: cross-compliance
(conditionality) and penalisation

(b) Water, energy, fertilisers, pesticides: fair price!

- Application of the polluter pays principle (equity)
- Dynamic argument (orientation of technical change)
- No distortion w.r.t. to other systems



(3) Improving and supporting the enforcement of « good farming practices and systems from an environmental point of view »:

Transitory support (direct aids)

- Compensation of additional costs / loss of profit
- Argument of the infant industry
- No distortions w.r.t. foreign competitors
- Risk considerations

(4) Environmental public goods: Permanent support + markets

- Targeted permanent direct aids and environmental goods' markets
- GHG, GHG, biodiversity, landscapes

