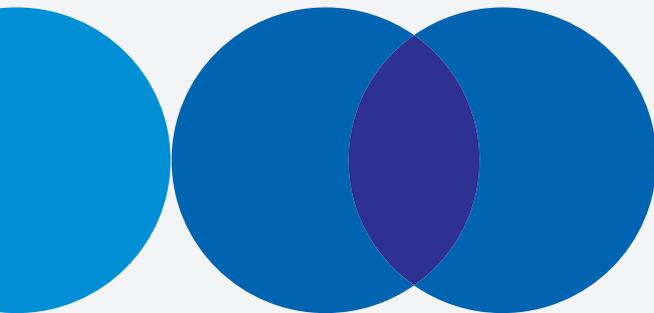




**FRANCE STRATÉGIE**  
ÉVALUER. ANTICIPER. DÉBATTRE. PROPOSER.

oct. 23, 2019



# MAKE THE CAP A LEVER OF THE AGRO-ECOLOGICAL TRANSITION

PRESENTATION FILE

## THE FOUNDATIONS OF A MORE SUSTAINABLE CAP

The common agricultural policy (CAP) is a highly complex subject that cannot be reduced solely to technical or budgetary issues. Indeed, with the challenges of food and sustainable development, it is also a social issue. Endowed with stronger environmental goals at European and national levels, agricultural policy offers the possibility of a transition to food systems that are less harmful to the environment and at the same time more, resilient because they are more diversified--in a word, an agro-ecology capable of meeting societal expectations for food, health and animal welfare while guaranteeing a decent income for farmers.

### THE CAP: THE FIRST COMMON POLICY IN EUROPE

At the heart of the Treaty of Rome, the CAP's initial ambition in the aftermath of the Second World War was to increase the productivity, and the income, of the European agricultural sector. The goal was to ensure food self-sufficiency in member countries.

Introduced in **1962**, it has embodied three main principles:

- To build a single market in which agricultural products circulate freely.
- To prioritize European agricultural production through border protection.
- To apply financial solidarity between Member States by establishing a common budget.



## FIRST OBJECTIVES ACHIEVED

The CAP has enabled Europe to increase its agricultural production, to ensure its relative food self-sufficiency, and to improve its agri-food trade balance by increasing the value of exports of processed products.

With an annual budget of €55 billion, the CAP now accounts for **43% of the total budget of the European Union**. France, itself, receives 16% of the CAP budget, a sum equivalent to its contribution to the total EU budget.

Agricultural aid enhances the profitability of farms, and serves as an economic buffer if a production or price shock occurs for certain products. This aid represents on average **100% of the current pre-tax income of French farmers**, with large variations depending on the type of agricultural production.

## TOWARDS A MORE SUSTAINABLE AND EFFICIENT CAP

Yet, as practiced today, the CAP has come under criticism. Some citizens criticize the European policy for its failure to integrate the environmental issue, in effect for not initially supporting those modes of production considered most beneficial to the environment.

Yet agriculture accounts for 20% of greenhouse gas emissions in France. It is responsible for 71% of methane emissions (greenhouse gases produced by ruminants in particular) and 94% of ammonia emissions (present in fertilizers).

The CAP is also complex, and not always effective, because it fails to meet expectations:

**20%** of greenhouse gas emissions



- of farmers who struggle to make a decent living from their work despite the aid, especially in times of crisis. The average salary of farmers was **€1,250 per month in 2016** according to the Mutualité sociale agricole (MSA), and a quarter of them lived below the poverty line in 2017, according to INSEE.
- of European consumers for food, health and condition of animals. This is reflected in the debates on the effects of pesticide residues in the food chain or soil and water pollution.

**One quarter**  
of farmers lived below  
the poverty line in 2017

## WHICH PRINCIPLES SHOULD BE ADOPTED FOR THE NEW CAP?

As the European Commission reopens debates on the future CAP, the report by France Stratégie examines how to make it "more ambitious for resource efficiency, environmental protection and climate action," as proposed by Phil Hogan, the European Commissioner for Agriculture when he launched in 2018 discussions on the future CAP's orientations.



**To integrate the environmental issue and ensure a decent income for farmers, this report suggests the following :**

- To bring the CAP closer to the principles of the public economy, particularly by implementing environmental taxation based on the polluter-pays principles, and by remunerating the services provided by agriculture to the environment;
- To ensure better resistance of farms to climatic and economic hazards by diversifying production;



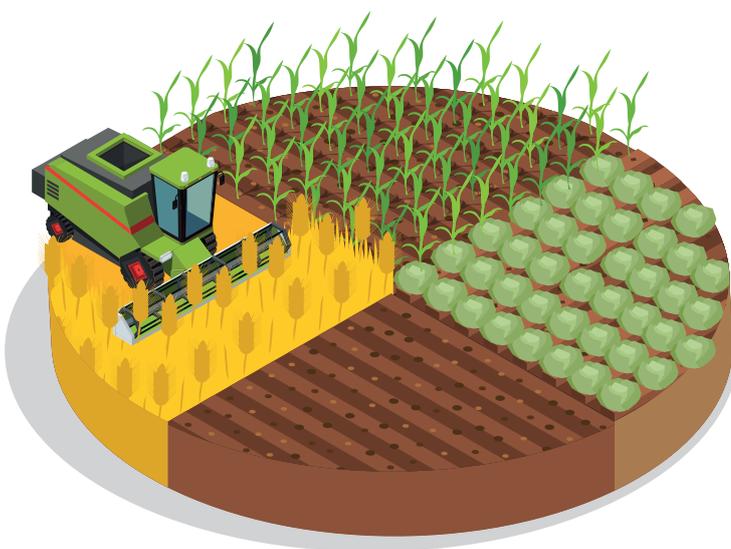
- To support production methods that contribute to improving nutritional quality, and health of the food supply, which implies limiting the use of inputs (fertilizers, pesticides, antibiotics, etc.) having an impact on human health and environmental quality.
- To support agricultural and agri-food innovation.

## TOOLS AT THE SERVICE OF THE AGRO-ECOLOGICAL TRANSITION

Direct CAP subsidies are currently linked to farm size and historical production references. This aid takes into account the environmental issue through the "green payment" (30% of direct aid) paid under conditions such as crop diversification and biodiversity conservation. In addition, the payment of all aid is subject to regulatory obligations concerning environmental protection and animal welfare, known as "cross compliance". But the use of tools such as quotas, thresholds, requirements and derogations makes the system complex and limits its environmental effectiveness. Other tools also exist that would simplify the CAP, and strengthen its environmental ambition on an unchanged budget.

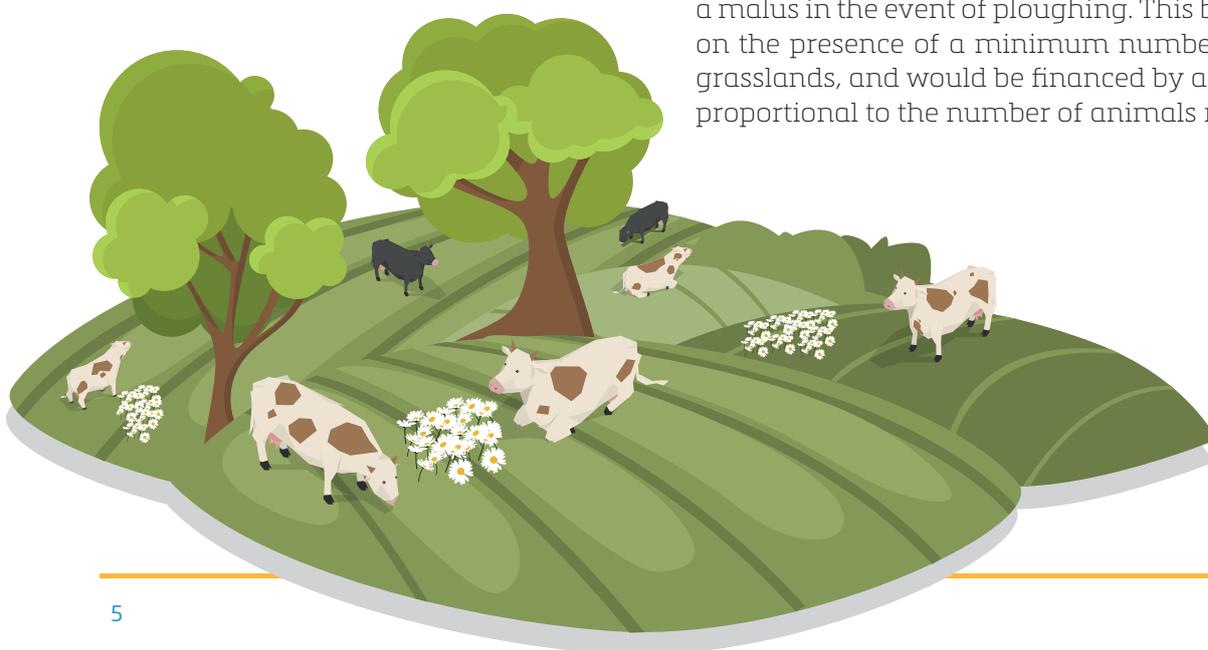
### A BONUS FOR CROP DIVERSIFICATION

Crop rotations, long practiced until agricultural systems became over-specialized, have made it possible to preserve soil fertility, reduce phytosanitary risks, and limit the use of chemical inputs. Crop diversification, from this perspective, could be encouraged through a bonus financed by taxation on fertilizers, pesticides, and persistent antibiotics in the environment.



### A BONUS FOR MAINTAINING THE GRASSLANDS

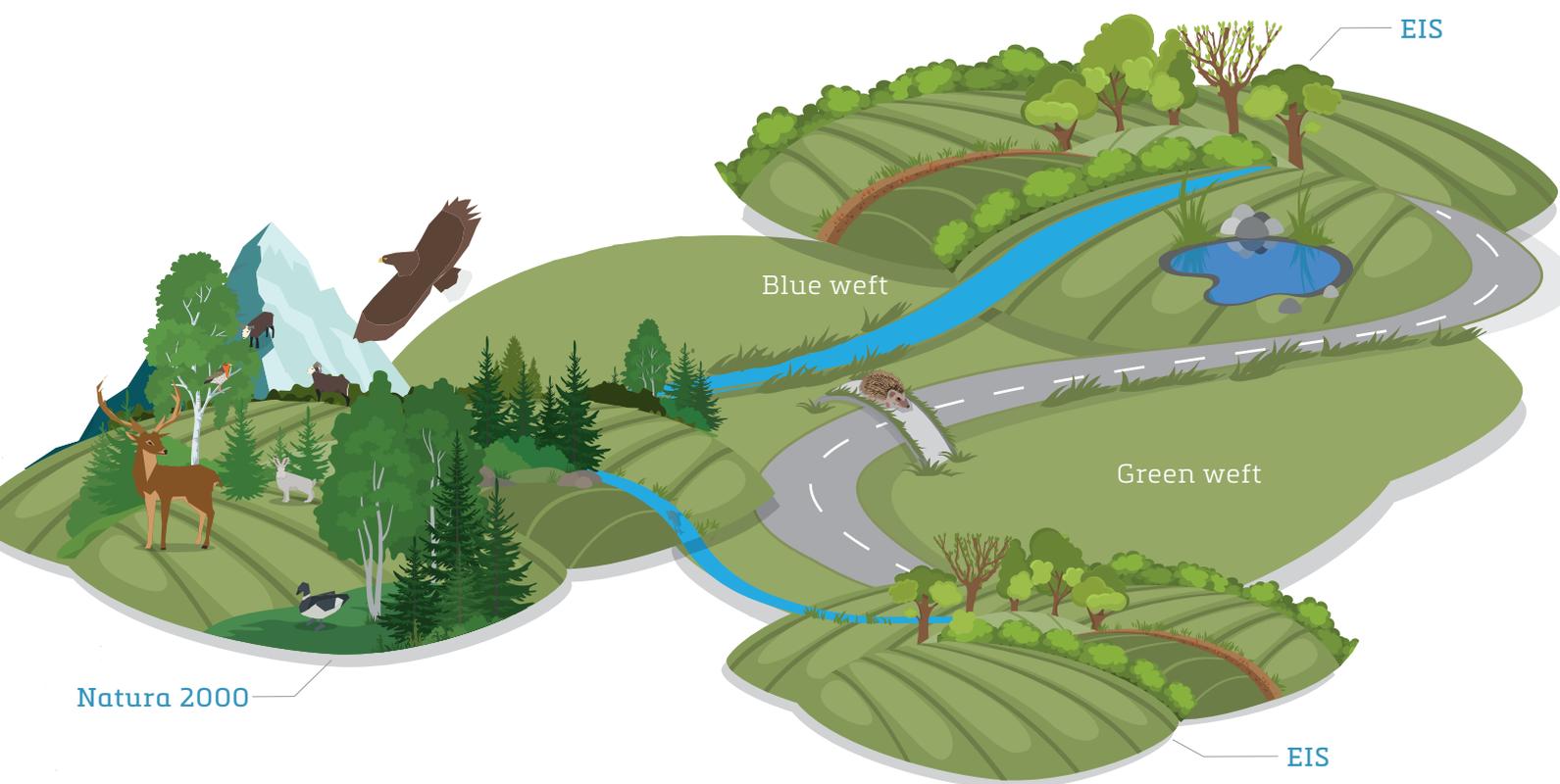
Grasslands, permanent or natural, provide ecosystem services. They contribute to animal nutrition, soil conservation, carbon sequestration, and landscape aesthetics. Therefore, their maintenance could be accompanied by a bonus, or conversely, by a malus in the event of ploughing. This bonus would depend on the presence of a minimum number of animals on the grasslands, and would be financed by a greenhouse gas tax proportional to the number of animals raised.



## BONUSES FOR BIODIVERSITY CONSERVATION

To encourage the preservation of ecosystems, a bonus could be paid to farmers who maintain **areas of ecological interest (EIS)**-- hedges, tree lines, ponds, fallows, and so forth. A penalty would be imposed if these EIS are destroyed.

In addition, aid could be provided for those farms committed to jointly maintaining or improving **Natura 2000** areas (European network of natural sites hosting habitats and/or species of European fauna and flora), or **agricultural areas of high natural value in the Green and Blue Trame** (network of ecological continuity constituting reservoirs of biodiversity, set up in the wake of the Grenelle de l'environnement). The payment would be based on quantified area commitments and environmental impact indicators such as abundance of species in the target area.

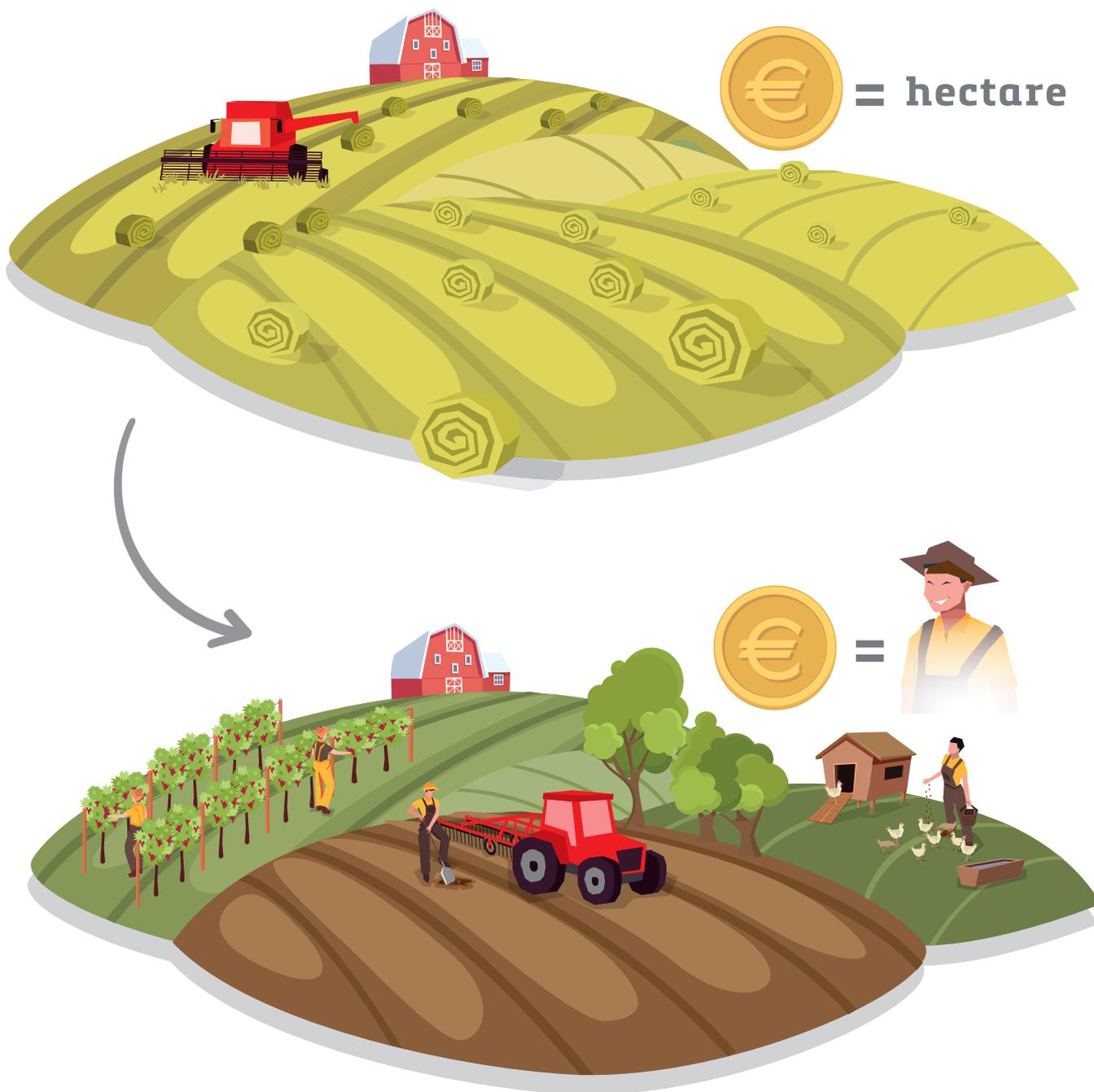


Like the conversion to organic farming, this type of agro-ecological practice comes at a cost. Therefore, contracts between farmers and public authorities could offer the necessary innovation and training for this commitment.

These three tools - bonus for the preservation of EIS, bonus for Natura 2000 or high nature value areas and **long contracts for agro-ecological innovation** - would be financed by a reorientation of the current "other" CAP support—that is, support that does not fall under either basic payment rights or green payment.

## SUPPORT FOR AGRICULTURAL EMPLOYMENT

Rethinking support to render it proportional to agricultural work rather than to farm size is an option with two advantages. First, it would allow all farmers to receive a **minimum payment distinct from the level of agricultural production; and second**, it would consider the increase in workload in switching from conventional to agro-ecological practices (mechanical weeding, for example).



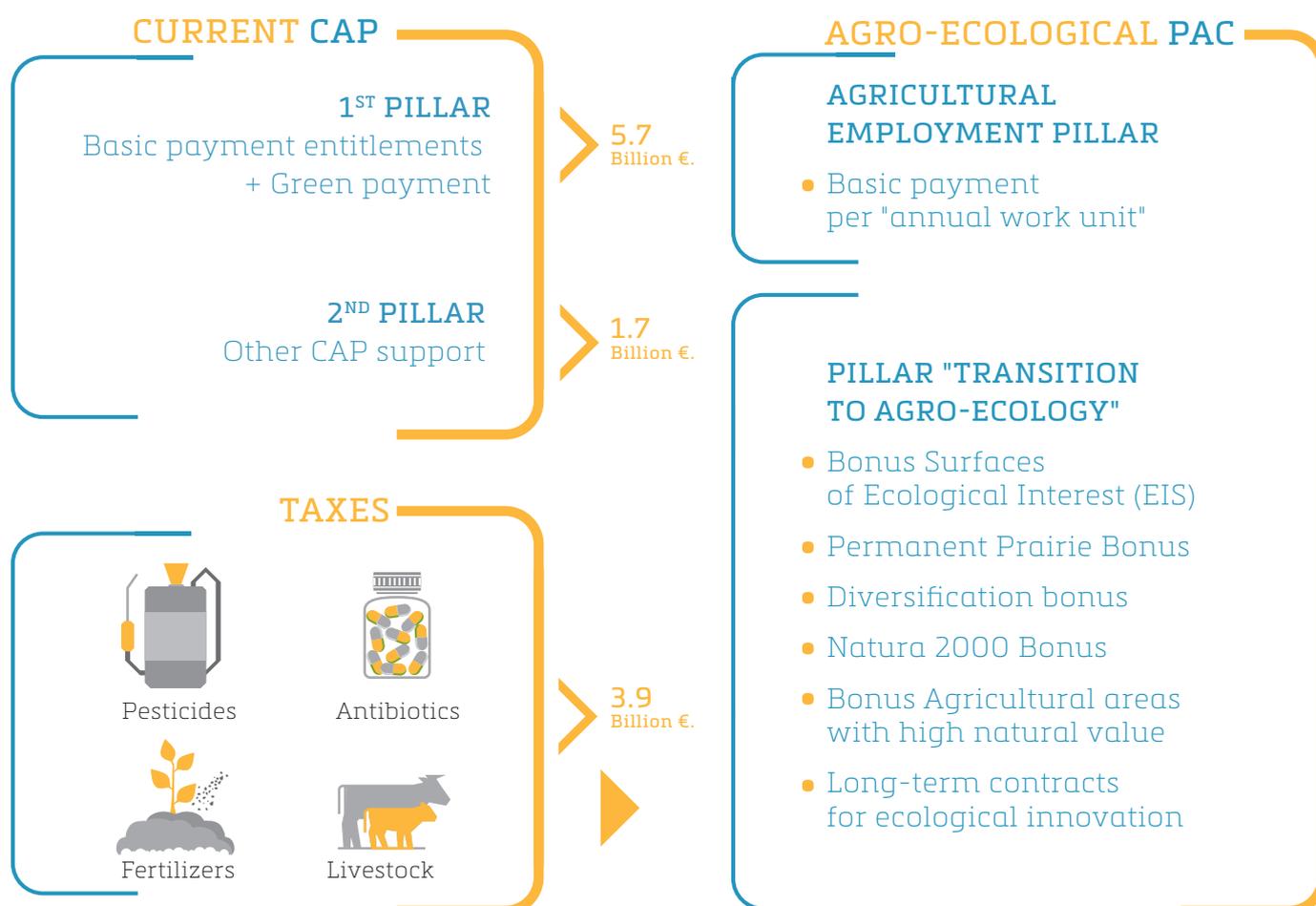
This "basic payment per work unit" would be paid to farmers applying for CAP support, subject to compliance with current environmental practices as part of the green payment. It would be financed from the current CAP budget for "basic payment entitlements" (direct payments per hectare) and green payment.

## WHAT WOULD AN "AGRO-ECOLOGICAL CAP" LOOK LIKE?

The implementation of these instruments necessitate a reorganisation of the CAP budget. From the data observed in 2018--input consumption, greenhouse gas emissions and surface area-- and with the CAP budget unchanged, it is possible to estimate the structure of this new CAP according to a long-term "target scenario". This scenario applies to the European Union but, if it were not possible to reach a consensus to implement it at Community level, France could apply it at a national level. Naturally, the European option would afford a more efficient transition to agro-ecology, and reduce the risks of distortion of intra-Community competition.

### BUDGET FRAMEWORK: A LONG-TERM TARGET SCENARIO

The projection of a target scenario is not intended to offer a "turnkey solution" for greening the CAP. Rather, it is to provide a coherent framework for operational decision-making support. Several hypotheses have been tested. Listed below are the assumptions that constitute an entry point; tax levels may increase over time to achieve the targeted environmental ambition.

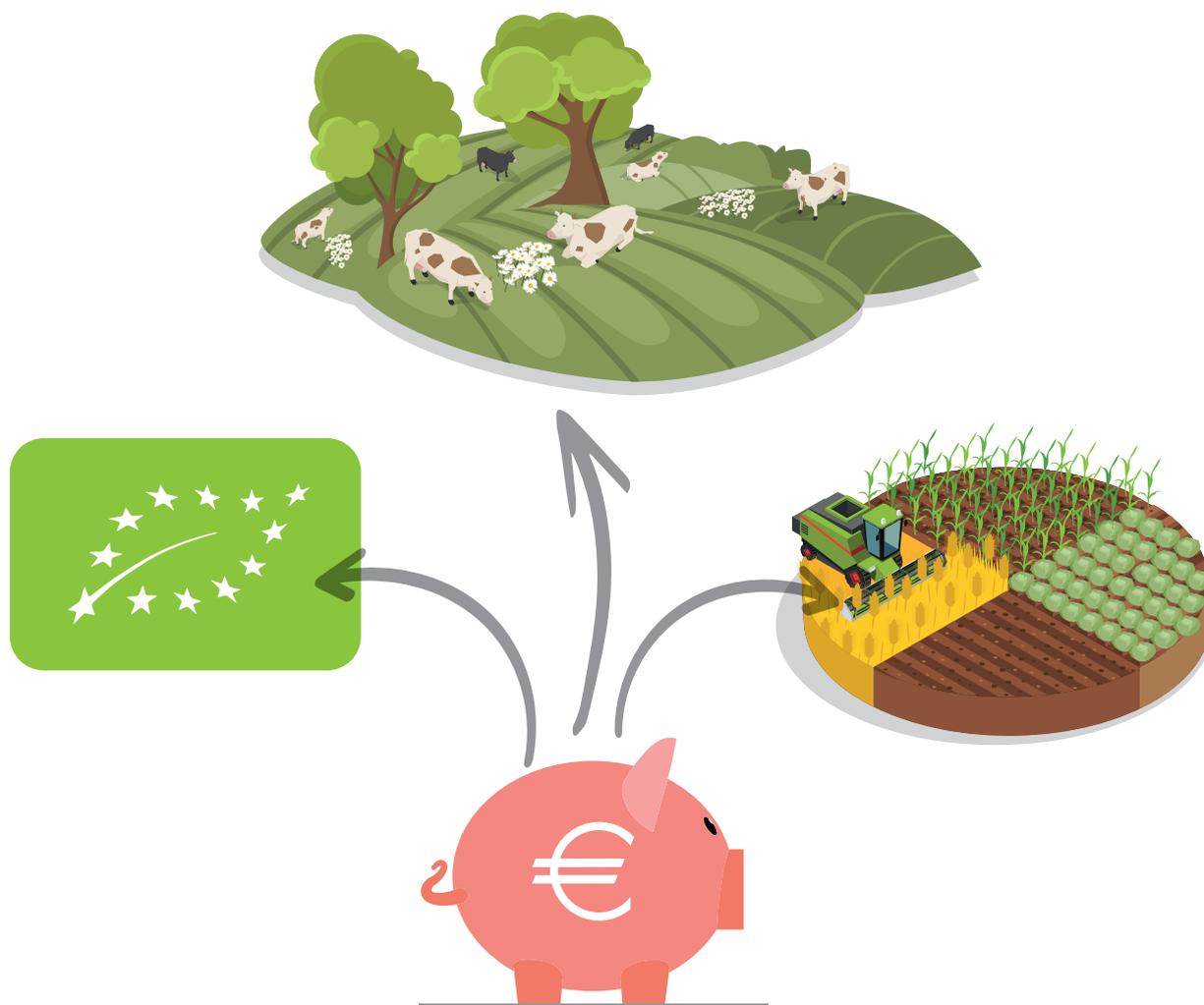


The central assumption of the target scenario is that the amount of taxes collected covers the amount of bonuses distributed without requiring an increase in the current CAP budget. Every euro raised per tax is allocated to the agricultural sector. For example, the bonus for crop diversification estimated at €2.4 billion could be financed by a gradual increase in the tax on fertilisers and pesticides from a rate of 20% of the price, and the tax on antibiotics from a rate of 15%, these rates corresponding to the minimum thresholds to bring about a change in practice. The advantage of a gradual introduction of taxes is to allow time to monitor the environmental and health indicators on which they are supposed to influence, and to allow farmers to make the transition.

## WHAT ARE THE EFFECTS ON THE DISTRIBUTION OF AID?

It is possible to identify the main trends in the redistribution of aid within the agricultural sector by using characteristic data from "typical" farms?

This simulation shows that the bonus for crop diversification would be a benefit to organic and poly-culture-livestock farms that are already diversified. The bonus-malus for permanent grasslands, Natura 2000 areas and areas of high natural value, would benefit **extensive livestock farming**. Taxes on pesticides and fertilizers would primarily benefit agro-ecological and organic farms, while taxes on greenhouse gas emissions would impact conventional crops and intensive livestock farming.



In detail, the model demonstrates that in field crops all **organic or highly diversified systems** would benefit. In livestock farming, this would include mountain dairy cattle farming. Yet from the perspective of an "agro-ecological CAP" conventional arable crops would have to modify their practices to maintain the same level of support. The simulation shows, for example, that to avoid losing subsidies compared with the current situation, the three typical cases of arable crops with "low or medium agronomic potential" would have to reduce their use of fertilizers and plant protection products by 20%.

Finally, the payment of a basic payment per work unit would make it possible to consolidate labour-intensive production, in particular fruit trees, vegetable and agro-ecological holdings. The current allocation for basic payment entitlements would allow farmers to receive around **€8,000 per full-time equivalent job** per year, compared with the current average of €135 per hectare in mainland France. This change in the method of calculating the basic payment would require a European agreement. It may, therefore, take longer to set up than the bonus-malus.



**A perspective is emerging  
to initiate a policy  
of agro-ecological transition:  
to develop the CAP, on an unchanged budget,  
by strengthening its environmental goals,  
and to complete it with an additional system  
of self-financed bonuses at the national level.**



## DOWNLOAD THE REPORT: *MAKING THE CAP A LEVER OF THE AGRO-ECOLOGICAL TRANSITION* (PUBLICATIONS SECTION)



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Press contacts:

Matthias Le Fur,  
Director of the Publishing-Communication-Events Department  
[matthias.lefur@strategie.gouv.fr](mailto:matthias.lefur@strategie.gouv.fr)  
+33(0)1 42 75 61 37

Charlotte Cougny, press relations officer  
[charlotte.cougny@francestrategie.eu](mailto:charlotte.cougny@francestrategie.eu)  
+33(0)1 42 75 60 39 - +33(0)6 72 31 33 14



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