

FoodDrinkEurope priorities for modernising and simplifying the CAP

1. Why the CAP matters for the industry: facilitate sustainable growth

The EU and the food and drink industry are living through challenging times. The European food and drink industry is the leading manufacturing sector in terms of turnover, value added and employment, as well as the world's largest exporter of food and drink products. As such, it has a major role regarding growth and jobs, notably in rural areas. The industry also has a big responsibility regarding the pleasure and well-being of consumers, and of course environmental sustainability.

We face urgent economic, social and environmental challenges that call us to step up our efforts to create sustainable growth and employment. To this end, we have committed to generating value added growth of 2.5-3.5% per year by 2025 through an ambitious roadmapⁱ.

While we take full responsibility for our actions and results, we cannot achieve this ambition alone. In the EU, food and drink companies mostly source locally or close to the place of farming and they work with 27 million professionals up- and downstreamⁱⁱ, including 11 million farmers. All partners in the food chain must participate to address the challenges.

We will succeed with our roadmap only if we have an enabling policy framework, the CAP being one of the key policies impacting the growth of the industry.

The timetable for the next CAP reform poses challenges to the co-legislators, which adds up to the uncertainties on the future long-term EU budget. In addition, we are conscious that changes to the CAP should take place gradually to avoid disruptions in agricultural production. This should not prevent the EU to set the long-term direction for a modern CAP which facilitates sustainable growth of the entire food chain.

2. Industry priorities for the future CAP

The CAP should be a truly common policy that promotes a

- * competitive and market-oriented agriculture,
- * that is more sustainable with respect to natural resources, biodiversity, ecosystems and climate change.

These objectives should not be seen as competing with each other. Rather, they should be pursued in a coherent way. Investment in research and innovation, knowledge transfer and collaboration among all stakeholders (including the industry) should form the cornerstone to achieve them.

The CAP has to provide the enabling framework, financial support and incentives.

a. A truly common policy

70% of the EU agricultural production feeds into the EU food and drink industry and about three of every four EU food and drink products exported are traded within the EUⁱⁱⁱ. This is why a strong and well-functioning Single Market, with fair competition conditions across Member States, is so important to us. The common nature of the CAP is also essential to achieve EU added value of public spending.

However, the last reform increased the level of flexibility given to Member States and regional governments when implementing the CAP first pillar, including derogations and exemptions from the general rule. FoodDrinkEurope invites the Commission to scrutinise the implementation of the voluntary provisions opted for by the Member States and to prevent a renationalisation of the CAP in the upcoming review^{iv}.

One way to apply the CAP consistently across the EU diverse agriculture and rural areas, is delivering common goals across borders. This is why FoodDrinkEurope would like to see more targeting of the measures on clear and common objectives.

b. A competitive and market-oriented agriculture

Farmers' income matters for securing the supply of raw materials to the industry and, ultimately, for food security. EU farmers are highly dependent on public support: direct payments represent on average 28% of their income (33% when rural development and other subsidies are accounted for)^v. Continuing direct support is also essential to avoid abrupt outflows of farmers from agriculture. Hence, FoodDrinkEurope believes that the next CAP should continue providing income support to farmers.

In the long-run, the CAP should aim at making farmers' profitability not dependent on public support. Profitability is the necessary condition to attract the youngsters to the agricultural sector. There are several measures that the CAP can provide to help farmers improve their competitiveness and that could be explored.

i. Working together in the food chain

In the EU, between 2008 and 2013, the value added generated by the food supply chain has increased by 8.5%, reaching €698 billion^{vi}. The share of each sector in the total value added has remained stable over the 2008-2013 period, indicating that, on the whole, each sector has benefitted from this growth. Constantly meeting consumers' demand by creating new and innovative products, contributing to healthy and nutritious diets and driving environmental improvements, allow to create more value before sharing it in the food supply chain.

With a central role in the chain, to be competitive, food and drink companies count on the security of agricultural raw materials' supply in terms of quality and quantity. The CAP needs to capture this need and further help farmers address pressing social and environmental challenges, by encouraging the supply of safe and high quality raw materials which are produced in a more sustainable way. Therefore the CAP should mainstream a food chain approach in all its measures.

To grow sustainably, the food and drink industry needs to rely on well-functioning and balanced food supply chains. The CAP should facilitate dialogue and cooperation between farmers, the industry trickled down to the consumer. FoodDrinkEurope is fully involved in promoting fair trading practices across the food supply chain, the Supply Chain Initiative (SCI) being the appropriate tool to contribute to this objective.

ii. Well-functioning markets

Market orientation is the most efficient approach to improve the competitiveness of EU farmers and to deliver agricultural raw materials that are in line with the quality and quantity needs of the consumers. Therefore the CAP must promote market orientation in agriculture. This includes:

- * contract elements to be freely and voluntarily negotiated between the parties;
- * improved clarity on the existing derogations from the EU competition law for farmers and their organisations, but no additional derogations;
- * market intelligence, i.e. facts, estimates, opinions and other market information, including an objective and not-politically-biased dialogue among stakeholders on the market situation within the existing bodies (e.g. market observatory, forecast group), in compliance with competition law^{vii};
- * no distortion of market signals, which would send wrong messages to farm business, e.g. mandatory price reporting by processors (because an aggregated and average price would create more confusion than transparency. It would also benchmark prices to the lower levels).

The existing safety-nets included in the Common Market Organisation (CMO) should continue to be available when difficult/exceptional market situations persist.

iii. The international dimension

A more market-oriented CAP will help advance the competitiveness of EU producers and manufacturers at home and abroad. While today the EU is the world's largest exporter of food and drink products^{viii}, the ability to compete internationally should not be taken as a given. This will also require complementary strategy and measures which promote internationalisation and open new market opportunities.

High standards, in the fields of food safety, plant health, animal health and welfare and environment^{ix}, may incur a cost for EU producers. These standards, serving a legitimate purpose, indeed lose their effectiveness if, as a result, they put domestic producers at a competitive disadvantage towards non-EU producers operating under lower standards. This consideration, however, should not serve as an excuse for lowering EU standards but to increase EU efforts to agree adequate production standards at global level with our trading partners and to dedicate sufficient financial resources in the EU to research and dissemination activities on these standards.

iv. Improving farmers' resilience

Farmers will be increasingly facing different types of risks (e.g. climate, animal and plant health, and market risks). The CAP should therefore strengthen EU agriculture and make it more resilient via:

- * Incentives to foster farmer entrepreneurship and business-development, e.g. in terms of farm size and modernisation, the financing and adoption of new advanced technologies/practices and digitalisation, the integration of workers into the vocational and training programmes of the Member States;
- * Measures to improve the synergy between productivity and sustainability of the sector, e.g. quality of soil, biodiversity, resource efficiency, water quality and availability and climate change mitigation;

- * Measures to stabilise farmers' income in face of extreme price volatility without distorting competition on the market.
- * More in general, market-oriented measures that increase farmers' resilience in the face of different types of risks, such as product and market diversification, and dissemination of knowledge on different risk management strategies, including the use of futures markets, etc.

c. A more environmentally sustainable agriculture

The CAP has encouraged EU agriculture to evolve towards good farming practices as an ongoing process. Today, all farmers in the EU must respect cross-compliance and those farmers who receive direct payments must, on top, comply with the greening measures.

The reform should fully integrate the new UN Sustainable Development Goals and the Paris Climate Agreement into the CAP. The CAP should also be consistent with EU policies on the circular economy, on waste and help farmers and industry achieve the EU 2030 climate commitments^x.

Measures and payments for environment/climate need to be target-oriented (i.e. linked to specific objectives), win-win for food production and the environment/climate, and adequately enforced. Such measures should increase the climate resilience and mitigation potential of agriculture.

Finally, the food and drink industry is increasingly committed to reducing the environmental impact of its own operations and beyond, by working with farmers to encourage the development and implementation of sustainable agricultural practices^{xi}. The CAP should acknowledge these voluntary initiatives, build on them to achieve policy objectives and facilitate sharing of good practices.

d. An enabling policy framework

i. Research and Innovation

Research and innovation are crucial to find solutions to the economic, social and environmental challenges of food production.

The CAP should boost the uptake of research and innovation by farmers and reinforce tools for the diffusion of knowledge. The CAP should also focus more on financing and adoption of new advanced technologies/practices and digitalisation by farmers and agri-food SMEs to help to provide safe and high-quality raw materials, increase productivity, address market resilience and reduce the environmental impact. The CAP should foster product innovation as well as take into account and protect traditional foods that are a key asset for Europe.

The industry should be seen as a central part of the multi-actor approach favoured by the European Innovation Partnership 'Agricultural Productivity and Sustainability' (EIP-AGRI), and its focus groups should also cover food processing. There should also be better alignment between EU research policy (currently Horizon 2020) and the objectives of the CAP.

ii. Development of rural areas

It is essential to complement private investment with public investment in infrastructure and services via the European structural and investment funds that secure

- * efficient storage and logistics around raw materials, to reduce waste and improve quality conservation;

- * digitalisation and connectivity, to allow farmers to access to and make use of real-time information, for instance to consult market/weather/consumer trends data to make better informed production decisions;
- * communications between the primary production, the businesses downstream and the consumers.

This would support the competitiveness of the supply chain but also benefit the wider rural economy and enhance its attractiveness.

Besides, CAP measures targeted to young new entrants in agriculture have the potential to retain rural populations, promote growth and jobs in rural areas and address the issue of an ageing farming population.

iii. Policy evaluation and monitoring

The Commission should present proposals once sufficient evidence is collected to run a sound analysis of the overall effects of the CAP, including an understanding of why the uptake of certain new measures (e.g. risk management, PO/IBOs) is proving slow.

iv. The EU budget

Finally, a truly common and ambitious Agricultural Policy will require a common budget with an adequate funding also after 2020.

ⁱ For more information, please see FoodDrinkEurope report [A competitive EU Food and Drink Industry for Growth and Jobs](#).

ⁱⁱ Extensive food supply chain, i.e. from input industry to food and drink services. Source: Eurostat, FoodDrinkEurope calculations.

ⁱⁱⁱ Source: Eurostat (Comext), 2015 data.

^{iv} Also in other policy areas, FoodDrinkEurope is strongly concerned with any attempts of renationalisation, such as the measures on mandatory origin labelling recently introduced in some Member States.

^v Share of direct payments and total subsidies in agricultural factor income (EU-27, 2010-14 average). Source: European Commission, DG Agriculture and Rural Development.

^{vi} Value added at factor costs of agriculture, food and drink industry and distribution sectors (wholesale of agricultural raw materials and live animals; wholesale of food, beverages and tobacco; retail sale in non-specialised stores with food, beverages or tobacco predominating and retail sale of food, beverages and tobacco in specialised stores). Source: Eurostat, FoodDrinkEurope calculations.

^{vii} For more information, please see [FoodDrinkEurope input to the Agricultural Market Task Force](#).

^{viii} In 2015, extra-EU exports of food and drink products amounted to €98.1 billion and extra-EU imports to €72.9 billion, resulting in a positive trade balance of €25.2 billion. Food and drink industry is defined by NACE rev.2 nomenclature, codes C10 (manufacture of food) and C11 (manufacture of drinks). Source: [FoodDrinkEurope Data & Trends 2016](#).

^{ix} Both existing (e.g. EU Food Law, cross compliance, 2020 EU climate and energy targets) and future ones (e.g. 2030 EU climate and energy targets).

^x Namely, the Emission Trading Scheme, the Effort Sharing and the Land Use, Land Use Change and Forestry.

^{xi} For more information, please see FoodDrinkEurope report [A Time to Act: Climate Action and the Food and Drink Industry](#).