

THE SECOND SASSPO POLICY DIALOGUE IN THE HAGUE OCTOBER 12-13, 2006:

PRELIMINARY CONCLUSIONS

In a rapidly changing world, the common agricultural policy (CAP) of the European Union (EU) is facing a multitude of challenges. Consequently, there is a need for re-thinking in many policy areas like strategic goal-setting, design of policy measures, implementation of policies as well as monitoring of policy outcomes. Conceivably, these needs are reflected to research and its future focal points.

The attendees of the second SASSPO Policy Dialogue identified a number of driving forces and pressures shaping internal and external operational environments of agriculture and agricultural policy-making. These findings were related to the physical environment, production and production technology, consumption and demand of biomass and agriculture-related public goods, as well as institutional issues concerning both policy processes and market forces.

Greatest concerns in relation to the physical environment were biodiversity loss, unpredictable side-effects of biofuel production, the climate change and negative environmental impacts of agriculture in general. Main issues regarding production and production technology were environment-friendly cultivation techniques (extensification versus intensification), polarising farm structure and immigrant farm labour. Issues raised in connection to the consumption and demand of biomass and agriculture-related public goods dealt with more consumer-driven food production orientation, biodiversity promotion, landscape preservation and possibilities of biofuel production.

However, considering the point of views articulated by the participants, the institutional issues appeared to be most significant factors influencing the operational environment of agricultural policy-making. Internalisation of externalities and valuation of public goods, coherence between I and II Pillars of the CAP (e.g. the role of cross-compliance), application of subsidiarity, bottom-up implementation, monitoring of policy effects and international trade negotiations (WTO) were seen important from the institutional point of view.

Having identified the various needs for change, the participants were relatively unanimous that the CAP has to evolve, although a non-stop reforming process should not be an end itself. Furthermore, it was pointed out that if the evolvement is based on continuous incremental adaptation, transaction costs may exceed potential benefits. The importance of sustainable development was well recognised, and it was even recommended that sustainability should receive more emphasis in the priority setting of the CAP at the expense of competitiveness.

A few conclusions could be derived based on shared pre-understanding attained in the roundtable discussions and reporting sessions.

Conclusion 1: The CAP needs further justification.

EU citizens, consumers and tax-payers do not necessarily feel that they get enough value for the money which is spent to the CAP, if only the basic agricultural output in the form of food, feed and fibre is considered. Also non-market outputs have to be taken into account, i.e. positive externalities and public goods which are closely related to farming. Environmental benefits originating from landscape management and biodiversity preservation as well as rural benefits due to enhanced economic and social viability of rural areas are of high societal value although making this value visible and perceivable in commensurable terms for policy-making purposes is challenging. Part of the further justification of the CAP is also a more balanced incorporation of interests of various stakeholders (producers, tax-payers, consumers, citizens, environmentalists, rural dwellers etc.).

Clearly, agriculture-related environmental and rural benefits have to gain more importance in the goal-setting of the CAP, because otherwise the multifunctional nature of agriculture (i.e. agriculture's ability to provide a wide array of public goods in addition to food and fibre) will not become appropriately recognised.

Conclusion 2: More attention should be paid to the internal and external coherence of the CAP.

Coordination of policies is required in order to further develop the CAP's I and II Pillars so that environmental and rural benefits due to the II Pillar measures will not be offset by policy measures taken in the I Pillar. Also the likely development in the WTO negotiations should be taken into account when the reassessment of the relationship between the I and II Pillars is considered. More attention should be paid to the development of the content of cross-compliance. Policy measures should also be better targeted at regional and local levels. The CAP should also be more explicit in relation to the role of entrepreneurship in agriculture as well as to the role of pluriactivity in farming.

There are conflicting interests among farmers due to farm size, production line, location and nationality. This cannot be completely avoided because geographic, agronomic and socio-economic farming conditions vary so much in the EU, but the CAP should show a clear intent to offer an equal opportunity to practice agriculture in all EU member countries. One principal problem with the CAP is the tendency to 'compensate', which makes it very difficult to reach new goals with the policy, as payments are often seen as a historical right.

Conclusion 3: A better balance between the market and public intervention should be attained.

The CAP faces simultaneously government and market failures. Public intervention in the form of agricultural subsidies tends to distort the functioning of the EU's internal market as well as the world market, leading to a government failure. On the other hand, the market is not necessarily able to cope properly with externalities and public goods, resulting in a market failure. Institutional innovations are required to make the market function better and to keep public interventions on a level which is not too excessive.

Conclusion 4: Better and more efficient implementation of policies and monitoring of policy outcomes on EU, national and regional levels are required.

The starting point should be the simplification of the CAP. However, there is not a clear-cut way to carry out the simplification. Indicators are increasingly used in the monitoring of policy outcomes. In this respect, the simplification would denote a smaller number of indicators but a higher aggregation

level of them. It should be remembered that indirect and non-agricultural outcomes of the CAP also matter and they should be monitored somehow.

The CAP should be able to get rid of policy implementation practices which lead to continuous incremental adaptation processes at farm level. Processes of this kind create unnecessary transaction costs which lower the cost-effectiveness of policies. Thus, in the implementation and monitoring phase transaction costs should be paid attention to, and the policy objective should be their reduction. This might be possible with the help of new institutional arrangements.

In the implementation and monitoring of the CAP the question is also about justification. If it is not possible to show how the CAP contributes to EU's general objectives and EU citizens' well-being, the justification of agricultural spending will not become properly argued. There is an urgent need for assessing the net effect of different policy measures, but there is not enough appropriate information available for these purposes.

Conclusion 5: The policy process should be made more democratic.

Involvement of a larger number of stakeholders through bottom-up approaches is a prerequisite for a more democratic policy-making process. In addition, the role of formal and informal institutions, which are not responsible for the defence and promotion of official national standpoints, should be increased in the decision-making process. Following the subsidiarity principle, decisions concerning both policy content and implementation should be taken as close as possible to relevant stakeholders. Policy formation and implementation processes should be transparent and they should be based on open communication.

Research needs

The most relevant research needs appear to be somewhat paradoxical: although there is not enough information available on impacts of currently applied policy measures, the research should be able to offer insights which could be utilised in the design of completely new policy measures.

The further justification of the CAP requires valuation research, the idea of which is to make agriculture-related externalities and public goods commensurate in monetary terms with market goods or other monetary value references. Furthermore, there is a need for research concentrating on institutional arrangements able to construct markets or quasi-markets for agriculture-related externalities and public goods. A benefit-cost analysis or a welfare effect analysis of the CAP is possible only if non-market benefits and costs of the CAP become incorporated in monetary terms.

There is also an obvious need for research on outcomes of alternative policy measures. In this respect, modelling that combines elements and approaches from multiple scientific disciplines is considered to be a crucial line of research, because it offers a cost-efficient way to cope with the real world complexity via simulations. However, there are also a large set of issues which cannot be properly examined through modelling. Models are applicable when impacts of policies are assessed and compared but it is also important to investigate the functioning of the policy process itself.

Is policy dialogue or a similar platform needed?

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The participants agreed that there is definitely a need for an arena where various stakeholders, experts and decision-makers can exchange views and information. However, some participants were of the opinion that the discussion should be more focused, while others would have preferred including e.g. more disciplines (biotechnology, agronomy, application and innovation) and less policy focus. In addition, the even involvement of all kinds of stakeholders, in particular that of NGOs was underlined. Future-orientation would be an important feature of a policy dialogue of this kind.