

STRATEGIC REFERENCE NOTE

**FOR IN-DEPTH REFORM OF THE CAP IN A
MULTILATERAL FRAMEWORK TO BE RENEWED**



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Summary

European agriculture needs an in-depth reform of the Common Agricultural Policy (CAP). Having become ineffective both in the face of market crises and to drive agricultural production systems to sustainability, the current trajectory of the CAP, which has its roots in the 1990s, needs to be revised. A new political impetus is now needed to get out of the logic of renationalisation and competition of the Member States. While all the major agricultural powers reinforce their public support for agriculture, we can not bring ourselves to see Europe being the only one not to consider agriculture as being at the heart of the stakes of the 21st century (food security, migration climate change, protection of natural resources, inequality, gender).

Like the Defense Strategic Review established in France, we believe that a strategic consensus on agriculture should emerge on a European scale. Agriculture Strategies and its Strategic Orientation Committee bring together the skills and sensitivities of different sectors to advance a necessary debate where too often an intellectual embargo on the future of the CAP prevails. The French Presidency suggests a desire to refound Europe, we want to contribute to this momentum. Without trying to impose its own views, France must assume its responsibilities, not succumb to defeatism and seek to convince the most resigned despite the "french bashing" often encountered in agriculture. With the leading ranks of most productions and the experience of a diversity almost as large as the diversity of European agriculture, France has the legitimacy.

While the Commission's first budget and regulatory proposals are now known, it seems out of reach to reach an ambitious political consensus by the end of the present Parliament's term of office in March 2019. However, time is of the essence. The campaign for the next European elections and the prospect of a renewed Commission must be pushed to action to raise a debate whose current level boils down to the redistribution of a limited European budget that would be done to the detriment of the CAP and the Cohesion Policy to fuel hypothetical new policies.

Our assessment of the situation is that, as with the 1992 reform, it is the combination of a geopolitical context in the midst of redefinition and a recognition of the limits of current policy that will create a new opening for the construction of Europe. This is the condition for giving substance to this "Europe that protects" and to emerge, on the international scene, a posture sometimes naive sometimes cynical, which was tenable in the shadow of the United States before it disappeared since the election of President Trump.

Also, it is essential to consider jointly the trajectories of the CAP and the WTO since the early 1990s. Any attempt to change one while considering the other unchanged is doomed to failure. At the heart of both trajectories, the principle of decoupling support is based on the assumption of market efficiency, ie the ability of prices to return to their "equilibrium" level after a shock.

The reality is quite different: the agricultural markets are structurally unstable and prices draw cycles marked by “brief peaks and broad dips” which render illusory the insurance approach, to the great displeasure of some big professional agricultural organizations who keep using it as their main objective.

Seeing itself as a "virtuous but isolated leader" Europe is the only one to continue to base its policy on the principle of decoupling, which is at the heart of the WTO's agricultural discipline. So no wonder the Doha Round failed: badly founded rules cannot be met. Faced with international markets who mostly have dumping prices, where the theory would like "equilibrium" prices instead, a new international cooperation to stabilize these markets and avoid the withdrawal of trade is essential. Today, paradoxically, the free trade ideology based on the assumption of market efficiency is the main risk weighing on international trade because it prevents any pragmatic approach to take into account food security stakes and the limits of price adjustment. We must therefore reconnect with the spirit that prevailed before the 1980s, when it was the stabilization actions of the main producing countries that allowed the development of trade. With the end of the milk and sugar quotas, Europe shows that it continues, on the contrary, to think of itself as a small country with no effect on international prices, and therefore has not learned the lessons of the struggle of the 1980s with the United States.

While it is essential that a new multilateralism emerges, agricultural Europe must already recover the letter and the spirit of the Treaty of Rome. Ensuring food security, stabilizing markets, and helping to raise agricultural incomes are the objectives of an in-depth reform of the CAP, with the aim of accompanying the environmental and energy transition. Between the hammer of environmental constraints and the anvil of the international dumping prices, farmers are, indeed, in front of contradictory injunctions. Since 1992, the CAP has contributed significantly to improving the competitiveness of its agri-food sector by enabling it to have access to quality raw materials at a price that is often lower than production costs. A rebalancing towards the social objectives of maintaining family farming and environmental protection of resources is now necessary to avoid weakening the base on which the European agri-food industry is located.

Our proposals for in-depth reform of the CAP translate into a CAP based on four new pillars that would replace the two existing pillars and make the strategic direction of Community policy much clearer.

- The first would devolve to the economic organization of producers and must in particular allow producer organizations to be, like any company, able to adjust their offer to not destabilize its markets. This empowerment of producers in the face of the markets may not be sufficient and requires the steering of the markets on the Community level, the sole guarantor of the integrity of the single market.

- In the second pillar would be the crisis management measures like the aid to the voluntary reduction of milk production experienced in 2016 but also the possibility of using biofuels as a stabilizer of markets through a prioritization of food uses on non-food uses. For products subject to the vagaries of international prices, counter-cyclical aid may allow a stabilization of incomes with a view to efficiency in the use of public funds and Community added value in association with market management measures. In this regard, the work we conducted with Momagri demonstrated the potential of these tools while being part of the budgetary rules in force.

- The third pillar would be that of the environmental and energy transition by using contractual approaches that seem to us much more effective than the approaches based on the greening of decoupled aid. For farmers in areas with natural handicaps, it seems necessary to have aid coupled with production because the services provided in these territories depend directly on production. From our analysis, the only decoupled aid that could be justified would be that which would compensate European farmers for the additional costs they have to bear in view of higher production standards. Moreover, in contrast to the Commission's laxity with regard to derogations granted to certain countries, it is important for the Community level to remain the guarantor of environmental policy since, failing that, to return this responsibility to the Member States will result in a leveling down.

- Finally, the fourth new pillar must ensure the renewal of generations and support investment. The age pyramid of farmers is more than worrying and the coming decade will be decisive because without enough men and women in agriculture, the added value and the transition capacities of the systems will wither away. In addition to the installation aid, the CAP must structure programs to support the transmission of farms: it is during installation that investments offer the greatest possible leverage to guide farms towards the sustainability it be environmental, economic or social. And support for climate insurance should help secure production systems over time.

This new CAP would fall within the limits of the multiannual financial perspective, maintained at a level equivalent to those for 2014-2020 and would fully respect the Treaties and the Financial Regulation in place.

Introduction

This note has been prepared by Agriculture Strategies with the support of its Strategic Orientation Committee whose members are presented in the appendix.

It is an innovative and essential work to establish a strategic consensus as to the urgency of a rebuilding, not only of the CAP, but also of the multilateral dialogue on agriculture and food. For a quarter of a century, the Marrakesh Accords and their avatar, the Doha Round, have locked international cooperation into a sterilizing process that has led the CAP into a dead end without promoting the emergence of significant agricultural development for developing countries.

It is a diplomatic imperative of primary importance, as the lines of force in the world are quickly being redistributed with the ever growing emergence of powerful 21st century powerhouses, such as China, India, Brazil, Iran, Turkey and more recently Russia.

This is a major political necessity at a time when Europe is still looking for its calling and where the peasant world has been enduring crisis after crisis.

It is also a pivotal human challenge because migration phenomena in areas with high population growth such as Africa, are only at their beginning. And we tend to overly attribute these migrations to conflicts alone, underestimating massive rural emigration resulting from the widespread impoverishment of farmers in developing countries.

Finally, it is a question of territorial balance, social progress and public health, where the quality of food and the protection of the environment have become unavoidable requirements as well as the fight against, and adaptation to, climate change.

It is therefore essential to completely rethink the agricultural and food policy of France and Europe with an open and innovative spirit, without surrendering to the defeatism that condemns the CAP and promotes unrealistic solutions of withdrawal, the gradual abandonment of a common policy and the creeping privatization of access to public support brought by the insurance illusion.

Our approach is of the same nature as that of the Defense world which produced in October 2017 a Strategic Review, coordinated by MEP Arnaud Danjean to analyze the long-term threats and infer the size of the forces in play, their composition and priorities for research and equipment. This review has become the foundation on which the next military programming law is being built.

In agriculture, Europe is temporarily unable to act with this ambition of strategic objectivity and adaptation to reality.

Because, having failed to completely reach the integration of the agricultural policy, which was the goal at six and which is now seen as a constraint at 27, Europe has abandoned its role as a strategic platform and public regulator. The consequence: a policy without strategy that has sought its legitimacy in socially correct palliatives, such as greening, the resilience of farmers or the decoupling of aid.

Thus the CAP, which it is fashionable to belittle as a cause of excessive budgetary expenditure at the European level, is the victim of a blockage of Europe which also prevents other policies from emerging. The result is a kind of intellectual embargo on the future of the CAP, while all the other major producing states reinforce their agricultural policies for reasons of both food security and national independence.

It is imperative to break this deadlock at a time when the world population will be exceeding ten billion people by 2050. In this context, Europe, which is still a strong economic and political power, will no longer be able to do so if agriculture and the agri-food sector are not managed as prime topics.

As for multilateral relations, Europe has become schizophrenic since the Doha Round bogged down because it introduced the principle of double punishment for the agricultural world:

- By remaining the good student of an endangered Doha Round and continuing, alone, to favor the decoupling of aid.

- And by simultaneously engaging in bilateral negotiations (CETA, TTIP, Mercosur, etc.) that further weaken the fabric of European agriculture.

Being eight months from the elections of the chambers of agriculture and one year from the European elections, it was therefore necessary to put the terms of this preliminary reflection in this strategic reference note. Because we are convinced that we need to build a common ground for CAP reform and the evolution of multilateralism, as there is for National Defense.

The French Presidency suggests a desire to refound Europe without surrendering to the withdrawal that the European Commission would like to impose on us with a budgetary constraint in advance of any reflection on the strategy and the policy that need to be followed. But the political environment and the positions of professional agricultural organizations are all too often marked by the conviction that France is no longer audible, that the CAP is on the decline and that the best we can hope for is that its budget doesn't decrease too much while giving pledges to a disembodied ecological thought.

That is why, in the continuation of the work of Momagri, but also of the work realized by the Jeunes Agriculteurs, the Academy of Agriculture or the Association of the Regions of France, we gathered within our Strategic Orientation Committee the skills of French and European politicians and elected officials from different parts of the agricultural world: trade unionists, farmers, cooperative leaders, but also experts, economists, lawyers, scientists and great consciences.

The goal: to have the shared and well-argued strategic basis for developing a comprehensive CAP reform.

Our proposal comes at a time when the European Commission is putting the two following legislative proposals on the negotiating table:

- the Multi-Year Financial Framework (MFF) 2021-2027

- post-2020 CAP reform.

If the interinstitutional dialogue comes to an end by April 2019, the date of the European Parliament's adjournment due to the European elections scheduled for May 2019, the next Parliament and the next Commission would be in the position of having to apply a legislative framework determined before the European elections.

On our side, we consider that the possibility of such agreements is weak, for the following reasons:

- The negotiations on the MFF have lasted two or three years each time and the prospects posted by the Commission correspond to a ceiling of resources compared to the period 2014-2020 translating a Europe at a standstill despite some limited redeployments creating the illusion of the rise of new policies. We make the assumption that this "timid eurostatism" will not be the basis of the interinstitutional agreement, especially when it comes to brutally undressing the CAP in favor of other programs of limited European scope.
- The CAP reform project immediately shows a decrease in constant euros of 15%, at the very least, under the pretext of a better budgetary added value which is only a technocratic alibi without any strategic ambition. It is part of the renationalisation trajectory of the CAP, which is already well underway and which seals public impotence both in the resolution of agricultural crises and in the environmental and energy transition of farms;
- The process of refounding the European project will structure the campaign in the European elections despite the doubts of all those who, like the "sleepwalkers" of European chancelleries before 1914, let the crisis come without imagining an alternative solution. It is probably to avoid such an awakening that the European Commission has proposed in advance these two legislative proposals attempting, in this way, to force agreements before the end of this legislature. The first reactions are very negative and we can hope for a global realization that does not promote an agreement on such caricatured bases

We are therefore in the perspective of a non-completion of these two short-term reforms and parallel advancement of an informal negotiation between the Heads of State, especially from France and Germany, which could lead to a reconfiguration of the European Union by the end of 2019, the date of the establishment of the new Commission. This period, which will last for 18 months, is the political breach in which we hope that our proposal will be able to incarnate and change the situation with respect to the status quo that has been in place since the beginning of the 1990s in agriculture and which feeds Euroscepticism in the countryside.

It is clear that France must be a leader to initiate such a change. It has the legitimacy and the responsibility: the only military power of Europe after the departure of Britain, France has once again become a major player in the international dialogue with a decisive soft power and the political will to revive Europe. In addition, in agriculture, France is the largest agricultural territory and the diversity of its agriculture is close to the diversity of European agriculture, which gives it a first-rate experience.

It is on these bases that a new European alliance can be formed despite partners who are both cautious and, for some, subject to temptations of identity withdrawal.

But conditions are right, time is running out and food policy issues and agriculture must be one of the crucibles of a new cooperation not only European but international.

Jacques Carles, Founder of Agriculture Strategies

«The transformation of Europe around a shared vision is the condition of a new and more stable world order, soothing the rivalries of power », Emmanuel Macron, Speech at the opening of The Ambassadors Conference, 29/08/2017

Introduction

A few days apart, two official communications, one from Brussels and the other from Buenos Aires, confirmed that the Common Agricultural Policy (CAP) and multilateralism were undergoing a profound political crisis. On November 29, 2017, the European Commissioner for Agriculture presented a reform project in the strict continuity of the previous ones. On December 12, 2017, the ministerial meeting of the World Trade Organization (WTO) concluded with the finding of a new failure to bring the Doha Round out of hibernation.

Beyond the calendar proximity, it seems more than ever necessary to consider jointly the trajectory of the CAP and that of the WTO, the failure of one explaining the failure of the other, and vice versa. Thus, any attempt to change one while considering the other unchanged is doomed to failure.

The purpose of this note is to lay out the foundations of the double stalemate of the CAP and multilateralism and to draw lessons from it to launch an in-depth reform of the CAP to address the difficulties of the agricultural and agro-sectors and to give Europe the credibility it needs to participate in the re-founding of a new multilateralism. In the first part, the related trajectories of the CAP and the WTO are presented in terms of their common denominator, the decoupling principle, and their shared deficiency, the belief in the efficiency of agricultural markets. In the second part, the axes of an in-depth reform of the CAP based on the three objectives assigned by the Treaty of Rome, supplemented by the imperative of the environmental and energy transition, are presented and organized in the form of a CAP with four pillars.

Part 1 : The CAP: a policy that has become ineffective

Co-author of the Uruguay Round agricultural agreement with the United States in 1994, the European Union has a special responsibility in building an exit from the top for a revival of multilateralism in food and agriculture. The pre-eminence of inappropriate trade rules is no longer relevant, whereas Agriculture is at the heart of the main issues of the 21st century (food security, migration, climate change, protection of natural resources, inequalities, gender). And it is also the responsibility of European leaders to find a new path of reforms to a CAP whose flaws and limits undermine, every day more, the European dream in the countryside.

1. Decoupling, Deregulation and Alignment with International Prices: The Great Disengagement

Understanding the current impasse in which the current CAP stands requires a reconsideration of the strategy behind the series of reforms that have happened since 1992. Faced with the development of surpluses of production that are increasingly expensive to store and whose export clearance threatened trade retaliation, the European Union chose the strong way by wanting to reconnect its domestic market with international trade, by lowering its customs protection. In order to make this provision acceptable, it was proposed to farmers to receive direct aids with, from the beginning, the prospect of "decoupling" them gradually, ie to pay them irrespective of production, in order to delete them as soon as the adjustments and rebalances have been made.

Thus emerged the concept of decoupling of subsidies that implies the grant of payments without reference to yields or prices and that even makes it possible not to produce while continuing to receive such aid. In a context of overproduction, it was indeed tempting to support the farmers' income, without aggravating the problem, that is, by avoiding encouraging them to produce too much.

The decoupling of aid was thus the central principle of WTO agricultural discipline: decoupled aid, classified as a "green box", was exempted from reduction. Right from the signing of the agricultural agreement of the Uruguay Round in 1994, the aim was to extend this logic of agricultural policy reforms to all countries. The United States, the true designer of this approach, waited for Europe to take this path of reform to get in step with it in 1996, by decoupling their direct aid during the reform of the Fair Act, also known as the Freedom to Farm Act. The main objective of this new collective discipline was to reduce surpluses in order to boost international prices.

2. The negation of the structural instability of agricultural markets

To change the form of public support to farmers, to render them useless and ultimately to suppress them, what's more attractive as a strategy? This intellectual construction can be explained as follows: market imbalances are the result of "distortions" created by agricultural policies that would need to be removed in order for markets to regain their equilibrium. It is based on the assumption that markets left alone are efficient or self-regulating, ie that supply and demand adjustments are smooth to converge prices towards their level of balance. Unfortunately, this postulate is false because the instability of agricultural markets is the norm, known at all times, and its negative consequences, whether for food security, farmers and the economy as a whole, justify the regulatory policies to correct or, at least, to limit the expression of the numerous failures of agricultural markets¹.

Box 1 : The structural instability of agricultural markets

Agriculture is thus made that its markets are structurally unstable, annihilating any prospect of seeing prices stabilize durably at a level of equilibrium. In question:

- on the one hand, the inelasticity of demand for food products and fears of food shortages that can drive prices well above production costs;
- on the other hand, the strong atomicity of producers, combined with a production cost structure close to that of a heavy industry and a continuous increase in technical progress, which lead agricultural supply to be much less reactive to price declines, than it is in favorable circumstances.

Therefore, it is pointless to push farmers to follow "market signals": it is not in their individual short-term interest to produce less when prices fall, and this is one of the main basis of public intervention in agriculture, that of accompanying the adjustment of supply to demand in order to reduce production overcapacity which would take too long to disappear on its own.

In addition, the structural instability of agricultural markets is accompanied by significant imbalances in the distribution of bargaining power along the value chain. These imbalances are reflected in the ability, particularly of processing and distribution, to capture not only the value added generated by production but also a share of the aid granted to producers. Thus decoupled aids are superfluous in the rather brief periods when prices exceed the level of production costs, and they are insufficient in periods of low, longer prices, during which they are, in a sense, captured by links downstream of the value chain.

¹ See in particular, Boussard J.M. (2017) *Les prix agricoles, nouveau dialogue sur le commerce des bleds*, l'Harmattan, 174p.

At first, the rise in international cereal prices observed in the early 1990s seemed to validate the decoupling approach, even if the effect of compulsory European fallows (up to 15%) is not to be neglected. But, the price surge observed in 1998 pushed the United States to take a first step aside by distributing emergency aid in addition to decoupled aid. And the Rubicon was finally crossed in 2002, when the Americans reintroduce so-called counter-cyclical aid, that is to say the amount of which varies according to prices. And, the United States finds in the development of biofuels the means to create a new important outlet for corn. Decoupled aid will gradually be reduced to nothing before being abolished in 2014.

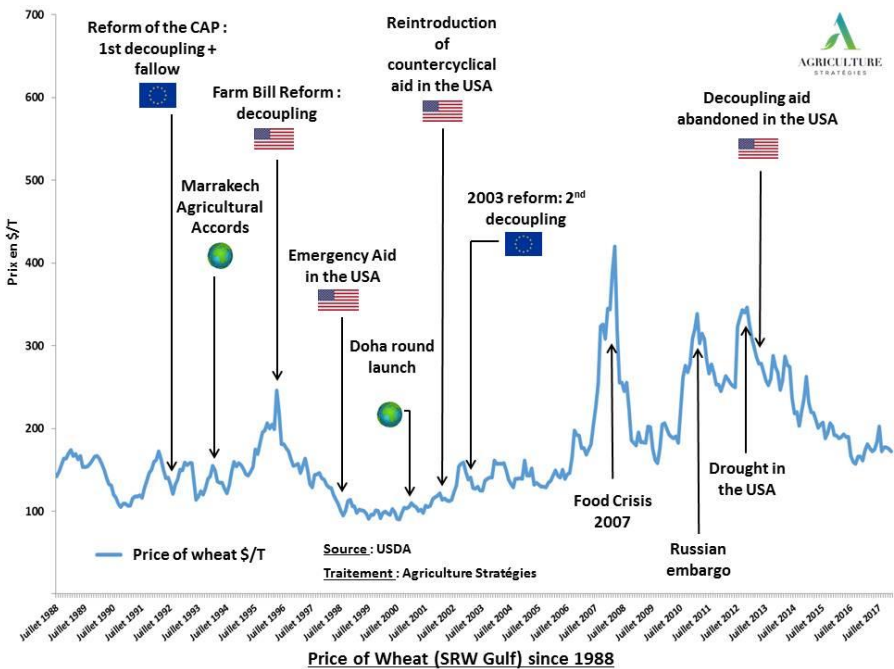


Figure 1: the main dates of the decoupling strategy

On the other side, the European Union is pursuing its reform path without hesitation, deciding in 2003 to take another step towards the complete decoupling of aid. It sees in this reform the opportunity to appear as the good student of the WTO. The decoupling of aid helps it to shift a large part of its agricultural budget in the green box category, that of aid not subject to reduction. In this way, it believes it can avail itself of a bargaining chip in the beginning of the Doha Round negotiations.

Europe therefore sees itself as strong in the WTO ministerial meetings, including that of Hong Kong in 2005. The martingale is there: turning support into decoupled aid is enough to get out of overproduction and thus be able to eventually remove direct support. In this context, it is no longer a question of keeping stocks that are sold at the first price improvement and even less to regulate its domestic market. This will trigger the end of the milk quota, the sugar quota will follow.

3. Europe under the orders of a ghost: the Doha Round

However, the principles of the trajectory of reforms defined between Europeans and Americans will not seduce other members of the international community. The move to direct aid implies budgetary and administrative means all the more important for countries with a large peasantry. This development would also involve undermining the stabilization tools of their internal market (public storage, customs protection), a particularly sensitive subject for societies whose share of food in the household budget is high. Beyond food security, which no government can knowingly ignore, agricultural market stabilization measures still represent for many countries the first means of avoiding devastating inflationary phenomena for the economy as a whole.

Thus, the food crisis that began in 2007, with aftershocks still observed in 2010 and 2012, is the death knell for a strategy that explicitly aimed to raise international prices. For different observers, the Doha Round was de facto stopped in July 2008 when Indians and Americans could not agree on the measures that could be taken, in the context of the WTO, in the event of an outbreak of high food prices. The purpose of the WTO discipline was to restrain the use of destabilizing measures for international trade, but subject to faith in the self-regulation of markets, it had forgotten to think about cooperation to prevent speculative runaways that accompany any threat to food security.

With the gradual withdrawal of the United States from multilateralism, initiated well before the arrival of Donald Trump in power, the European Union finds itself as the last guardian of a temple with outdated rules. It is hard to argue that even decoupled aid has no effect on production when, 25 years after the start of the reform process, it accounts for about half of the farm income. And all the more so since, at the same time, the elimination of quantitative limits to the expansion of European production has led to a profound destabilization of international trade in dairy products, followed by sugar.

Therefore, by being stubborn about the principle of decoupling, the European Union bears important responsibilities in blocking multilateralism. In this context, the all-out negotiation of bilateral agreements serves as a leap forward, even forgetting on the way what the signing of the Paris Agreement or the migratory phenomena at the gates of Europe could mean in terms of European trade politics.

4. Strengthening of agricultural policies in the world

If agricultural Europe seems to continue on its trajectory, this is not the case for other countries that are strengthening their food and agricultural policies. The 2007/08 crisis seems to have even revived strategies based on the development of the agricultural sector. And, despite the fall in international prices observed since 2013, the momentum has continued. To cope with international prices burdened by the rebuilding of stocks, three types of strategies are observed.

The first type, the most common, is to play on the customs protection, the ultimate weapon of importing countries, like China where, for example, the minimum price for wheat established by the State reaches around \$ 360 / t against € 140 / t as price paid to European producers for the last 4 years (to which must be added about 40 € / t of decoupled aid). India but also most countries of the southern shore of the Mediterranean sea and the Middle East are on this logic.

The second type of strategy consists in developing alternative outlets such as Brazil, which continues to promote the incorporation of ethanol into fuels in order to develop its sugar cane; this is also the case for the producers of the Great Ukrainian and Russian Plains, whose production of white meat literally explodes. Finally, the third type consists in giving its producers the means to withstand exposure to international prices through aids that vary according to price, counter-cyclical support, as is the case in the United States or Canada for cereals in particular. American Farmers thus have the opportunity to have guaranteed revenue of \$ 202 per tonne of wheat by cumulating sales prices and variable aids.

The European Union is, therefore, the only one to have no other strategy than to take full whip the assaults of the international prices which are either too high, or too low. International trade remains a narrow market, where the surpluses of a handful of exporters are exchanged for each product. Excluding periods of pressure on food security, the prices associated with international trade are close to the concept of dumping prices. In this case, it is the level of the production costs of the most competitive production area that drives prices, even though this production area would still be insufficient to satisfy all the demand. The dairy sector offers one of the most obvious illustrations: New Zealand has undeniable comparative advantages in terms of livestock and its exports are taken as a reference in terms of international prices, even though it represents less than 5% of global production.

This situation, very real, is certainly not optimal. But the constitution of a vast global market integrating the entire world's agriculture would have supposed strong cooperation between its promoters to be able to stem the excesses of the volatility of international prices. Like the management of any common good, a relative stability of the international exchanges, necessary condition for the commercial opening, supposes cooperation and safeguards to avoid the behavior of stowaways. This has not been the case, and the food crisis of 2007/08 will have severely challenged the project of a globalization of agricultural trade based on the deregulation of agricultural policies. In addition, the differences in labor productivity are such that this scheme is equivalent to directly competing mechanized agriculture in OECD countries with hundreds of millions of peasant families barely equipped with animal traction, with potentially repercussions in terms of widening inequalities and population movements.

5. Europe against the current

Less sensitive to the effects of too high agricultural prices due to the low share of food in the household budget, the European Union did not have any difficulties in continuing its agenda during the CAP reforms of 2008 and 2013. The prospect of "10 billion mouths to feed by 2050" as a promise of maintaining high prices would have been right in the case of compulsory fallow, milk and sugar quotas.

The price drops in the main international agricultural markets observed since 2013 have therefore been directly passed on to the European territory and translated into agricultural crises. Directly connected to these dumping prices, the agricultural world is put to the test, with no other protection than decoupled aid planned year after year. And since most of the other agricultural powers have not made the choice to remain passive in the face of the reversal of international prices, the adjustment will be all the longer as it will only concern those who have not wanted to protect it.

The Common Agricultural Policy therefore relies on the hope of a serious climate incident in a large producing country to hope to get out of the rut of international prices and incomes of European farmers. Defenders of the status quo will also highlight the benefits of a crisis that will again select the most resilient. The modernity of agricultural Europe would therefore be to rely on the heavens and go through the sacrifice of the weakest, most indebted and therefore the youngest.

The defense of this reform strategy, rooted in the 1990s, also involves the promotion of private risk management tools. To better assume the withdrawal of public intervention, farmers are given the responsibility to cover themselves against the vagaries of the markets. It would be for farmers to use the futures markets and to use insurance and mutual funds to ensure a sufficient level of income. However, these tools, when they exist, are of no help when prices are low several years in a row. But some leaders of professional organizations still believe that by becoming money managers, they will offer farmers a sustainable solution.

Thus, particularly in France, some organizations have positioned themselves in favor of the changeover of the CAP in a purely insurantal logic and, despite the scale of the crisis, still seem far from seeking to re-legitimize public intervention to stabilize markets and farm income. And among the arguments put forward to justify this positioning, there is much reference to an American agricultural policy which is artificially inflated for the occasion the role assigned to insurance while failing to recall that countercyclical assistance is central. While, given their weak performance against market crises, insurance is in the hot seat as part of the negotiation of the new Farm Bill: in 2016 for \$ 5.8 billion in insurance policy subsidies, Farmers received only \$ 400 million in net benefits, with the remainder going to the top insurance distributors, including Farm Bureau branches and subsidiaries. Very limited efficiency and high derived profitability!

Box 2: The limits of risk management tools

Market risk has the characteristics of being systemic and catastrophic: all producers are affected at the same time and the associated losses can be very high. Therefore, insurability by pooling is impossible. However, market risk hedging solutions exist through the transfer of risk to the financial markets. This transfer can be carried out directly by the farmer who will take the appropriate positions on the futures markets, or by an intermediary (usually his cooperative) who covers himself to guarantee a price level well before the marketing of the product.

While futures markets have developed for grains, this is not the case for most other products mainly because of insufficient transparency on the physical markets and / or the non-storable nature of certain products. Above all, the transfer of risk implies that the hedge thus obtained is calculated according to the level of prices observed at the time of the commitment which will constitute the trigger price: thus if the prices are high, a price or a high revenue can be guaranteed, but in the opposite case if the prices are low, the proposed coverage will not be interesting. It is of course possible to raise the trigger price of an income insurance or an option (put), but this assumes a cost almost equal to the trigger price increase. In other words, it is the insured who pays the entire coverage!

As a result, the effectiveness of private risk management tools depends on the profile of price volatility. If volatility is regular and low frequency around the level of production costs, they will be useful. But if prices have cycles marked by "brief spikes" consecutive to fears on food security, and "broad dips" where the demand barely catches up with an offer over-stimulated by the previous episode, then the private market risk management tools will not be of much help to producers.

Introduced by the Commission in the 2013 reform, economic mutual funds - called income stabilization instruments - have been used only by Hungary and a Spanish region, Castile-La Mancha, for very limited effectiveness. However, the hopes placed in them have made it the flagship of the so-called Omnibus negotiations in 2017. The changes will not solve the main problem specific to all risk management tools: they are not effective only when prices fluctuate regularly around the level of production costs. In addition, they raise questions about potential abuses linked to privatization of access to public support insofar as their promoters must be economic actors. Finally, in line with the Juncker Plan, public money can be used for the initial endowment of the fund and the repayment of loans, suggesting the possibility of somehow emerging the securitization of the European agricultural crisis.

6. Protection of the environment and connection to international markets: contradictory injunctions

Directly faced with the dumping prices of international trade, farmers are not in a position to take the risks of changing to more sustainable practices. The simplification of production systems and the use of phytosanitary products, increasingly criticized by public opinion, aim to lower the production costs of producers subject to the injunction "to be competitive on world markets". However, their incomprehension can only be great when, in front of them, their competitors do not have to respect the same production standards but they nevertheless also have access to the European market. Wedged between the hammer of environmental "constraints" and the anvil of international dumping prices, alternatives such as conversion to organic farming or short circuit sales are far from being accessible to all.

A better consideration of the environment has figured prominently in the objectives of the CAP reforms since 1999 and the creation of the second pillar. The establishment of contracts with farmers, on a voluntary basis, to assist them in changing their practices has been a rather effective option, but one that has suffered because of the limited budgetary resources allocated to it.

On the other hand, as the flagship argument of the debate on the Union's budgetary perspectives for the period 2013-2020, the greening of decoupled aids from the first pillar has resulted in a more than mixed record in terms of protection of natural resources². Given the diversity of production systems and territories, using uniform criteria and high levels of demand does not seem compatible with the payment of decoupled support, the main objective of which is income support. By definition, decoupled aid cannot be paid according to production. And, beyond the technical difficulties to monitor indicators at the individual level, the political acceptability of a real recoupling according to ambitious environmental criteria must be measured: the political pressure to establish the indicators and the least restrictive thresholds will be strong as long as no answer considered satisfactory to the question of the protection of their income has been brought forth.

Also, while the CAP has been very successful in improving the competitiveness of the agri-food sector by guaranteeing access to healthy raw materials, but at a price often below production costs, the new imperatives related to environmental performance and social aspects of European agriculture now require a break with the trajectory of reforms undertaken in the 1990s.

² See report n°10/2018 from the European Court of Auditors : « Greening: a more complex income support scheme, not yet environmentally effective»

7. Towards a low intensity CAP?

In unveiling its priorities for the next CAP reform, the European Commissioner for Agriculture has made it clear that calling into question the line followed since 1992 was not on the agenda.

Upon reading the draft regulations, it even seems that the Commission is assuming the scenario of a renationalization of the CAP and the competition of the Member States in order to maintain the status quo on decoupling, deregulation and alignment on international prices. Under the principle of subsidiarity, each Member State will have to define a 'support plan' in which it will establish its own objectives and the means to achieve them, be it income support, environmental protection or organization of producers.

While the Commission will have to validate the plans proposed by the Member States, how can it weigh to converge the options chosen by each Member State while we are in a logic of regulatory competition? And the carrot of a budget bonus for good students will not change anything, this competition will inevitably result in a leveling down of ambitions, especially in environmental matters.

The disengagement of the Community level in the field of crisis prevention and management seems to be assumed since no proposal is made to use the crisis reserve and the producers and their possible better organization are referred to this responsibility without any guarantee on the means available to them.

In the search for the lowest common denominator to hope to save appearances and to obtain an agreement, the Commission is thus made to push the current logic to its end even if it takes the risk of passing the main Community policy through profit and loss, if no political overtaking happened.

It is therefore essential to introduce, as of now, the main lines of a reform of the CAP adapted to the very degraded situation of the agricultural world and meeting strategic objectives in line with the evolution of a world which has never been so polycentric and where security and food sovereignty are at the heart of power issues.

This is the purpose of the second part of this note which aims to establish the objectives and a coherent architecture of the tools for an in-depth reform of the CAP.

Part 2 : For an in-depth reform of the CAP

The trajectory of reforms started in the early 1990s is at the end of its course. The failure of the Doha Round is on the way and the blocking of appointments to the Dispute Settlement Body could completely paralyze the WTO in the short term. By launching a commercial standoff over steel and aluminum, the United States have taken another step in challenging international cooperation in favor of free trade.

This new context gives the European Union more leeway to design a reorientation of its agricultural policy but also more responsibility in the definition of a new international economic order. As the world's largest importer and with the most attractive domestic market in the world, the European Union has unparalleled leverage to implement its ambitions in the fight against climate change and for environmental and energy transitions. The arrival on the political agenda of migratory phenomena also led it to reconsider the question of the development of the least developed countries - in particular in Africa - and, indirectly, those of food security and development through agriculture. Finally it will be through the capacity to participate in the definition of a third way between free trade and protectionism to be able to provide answers to the challenges of the 21st century and the Sustainable Development Goals that the European Union will give itself means to be a player in a controlled globalization and no longer undergone.

The aim is to give back to Europe back its sovereignty in agriculture and food. The trajectory of reforms has resulted in the construction of a political impotence whether it is for the stabilization of markets and agricultural income or support for agriculture in environmental and energy transitions. Over the past 25 years, the CAP has been reduced to its redistributive dimension with a futile attempt at greening. This state of affairs is one of the ferments that undermine the construction of Europe today.

Reorienting the CAP means going back to the spirit and letter of Article 39 of the Treaty on the Functioning of the European Union, once again assuming the objectives of food security, market stabilization and farmers' incomes, while adding that of the environmental and energetic transition. It is the coherence of these four objectives and the dedicated instruments that will make it possible to find a real efficiency in public spending and a Community added value through an overall management of the European agricultural and food system.

On this basis, which is both stabilizing and sustainable, the European Union will then be able to be an actress in the definition of a new multilateralism, because it is more likely to be part of a logic shared by emerging and developing countries while becoming a strong interlocutor vis-à-vis the major producing countries. It will also be better able to ensure its integration into international exchanges in order to participate in the emergence of product-specific cooperation. Like the product agreements that, from the 1900s to the 1980s - despite the non-ratification of the Havana Charter in 1948 - have made it possible for several products, such as wheat, to secure the international trade of most agricultural commodities³.

³ On the Havana chart and commodity agreements, see the books by François Collart Dutilleul (2018) *The Havana Chart, for another globalization*, Dalloz and from Niek Koning (2017) *Food Security, Agricultural Policies and Economic Growth, Long-term Dynamics in the Past, Present and Future*, Routledge.

Just as the reform of the 1992 CAP provided the necessary guarantees to validate a posteriori the bases of multilateralism recorded in the Marrakesh Agreement in 1994, an in-depth reform of the CAP may foreshadow a new multilateralism in agriculture and food. However, given the serious uncertainties that weigh on the evolution of the rules of international trade with what looks like a new episode of trade tensions of magnitude, the evolution of the CAP must also be thought to meet the needs of Europeans in the situation of a blockage of multilateralism in the long term.

1. Four objectives for an in depth reform of the CAP

We propose to come back, by updating them, to the founding objectives of political Europe as defined by the 1957 Treaty of Rome - food security, stabilization of markets, parity of agricultural incomes - while adding that of the environmental transition and energy aspects of the agri-food system.

a- Guarantee food security:

A satisfactory agricultural policy cannot be devised without meeting the objective of food security. Ensuring food security requires sufficient international trade to offset potential supply shocks (drought, epidemic, etc.). But relying solely on international trade is all the more risky as no inter-state discipline is in place to avoid panic movements.

Ironically, while net oil-importing countries, like Europe, have to hold at least 90 days of spare stock, this is not the case for food security. In cereals, China now plays the role of last resort storeroom for the entire planet, a position occupied by the United States until the 1980s. If the European Union really wants to participate in world food security, especially with regard to the Maghreb and Mashrek countries, it has to take its share in the management of world stocks.

While the FAO estimates that 815 million men and women, mostly rural and peasants, who still suffer from malnutrition in 2016 worldwide, food security also remains an issue on the European territory. Inequality and poverty are affecting many families and many children. Like the American food policy, the European Union and its Member States could better support the initiatives of associations and local authorities in a integrating fully agriculture and solidarity vis-à-vis the most deprived, developing in particular an expanded system of food aid.

b- Ensure market stabilization:

Agricultural markets are structurally unstable and the adjustment of output by prices faces many rigidities in the agricultural sector. The excessive volatility of agricultural and food prices leads to economic and social costs that make public intervention necessary to facilitate the adjustment of supply to demand. The illusion that markets were efficient enough to stop treating the causes to simply manage the symptoms with private risk management tools and / or decoupled aids did not resist the reality of markets marked by cycles of "brief peaks and large dips".

Preventing or dealing with crises as soon as they occur is cheaper than intervening retrospectively, while whole sectors of the agricultural economy need to be supported with significant budgetary resources. In addition, the dynamics of market prices left to themselves is at the base of the mechanics of the capture of the added value released by the production: it is the famous ratchet effect which wants that the margins of the intermediaries progress as shocks are passed unidirectionally either to the producer or to the consumer.

The production reduction scheme for dairy production experienced in 2016 or supply management mechanisms managed directly by economic actors, such as in viticulture or for cheese under PDOs, demonstrates the effectiveness of empowering producers. The flexibilisation of biofuel policies should also be considered in order to prioritize food uses and serve as a buffer in the event of an excessive difference between supply and demand.

If Europe does not give itself the means to control its internal market, it will continue to be a factor destabilizing international trade. This was the case with export subsidies in the 1980s; the disruptions caused by the end of milk and sugar quotas show that, from this point of view, things have not really changed in Europe. It is as if the European Union sees itself as a small producer that has no effects and even less responsibility for international balances. It is therefore not enough to declare oneself virtuous by privileging decoupled aid to help stabilize markets.

c- Participate in raising agricultural income:

Despite the significant demographic transition experienced by the agricultural population to reach 4% of the European working population, the current period shows that this evolution has not solved the question of the parity of the standard of living of farmers compared with the rest of society. In view of their commitment and the major risks they face, the remuneration of labor and capital remains low despite the income support paid. This reality affects the sector in such a way that the age pyramid of farmers is worrisome to the extent that the renewal of generations seems unattainable without structural measures at least as strong as those observed in France in the late 1970s - early 1980s.

After a constant erosion of the peasant population, considered desirable to allow the modernization and full utilization of the factors of production, it seems that we are now approaching a low level which, if exceeded, will lead to a significant decline in agricultural land use, rural desertification and significant production declines. Above all, the environmental limits linked to the substitution of labor for capital and inputs lead, on the contrary, to consider that the transition of certain production systems may result in a need for labor. And more generally, it is now accepted that the economic security of farmers is an important condition for fostering risk-taking linked to the shift towards more virtuous practices.

It is therefore essential to have means of public intervention that help stabilize the income of farmers over time. This is not the case with decoupled aid, the amount of which, by definition, does not include price and income developments. This type of aid is based on a logic of rent and is all the more easily captured by the economic environment of farmers that market regulations are erased. Conversely, the ability of counter-cyclical aids to stabilize incomes in a context of random prices is no longer to be proven.

Raising the standard of living of agricultural workers is also an important issue elsewhere in the world. It is clear that there are no more virgin continents to facilitate a demographic transition like the one that Europe began centuries ago. The socio-economic balances between cities and countryside are at the heart of the concerns of the demographic giants of China and India. The prospects for population growth by 2050 will primarily concern Africa with potentially important implications for Europe. The development scheme based on industrialization favored by the fall in the cost of labor obtained by a fall in agricultural prices and the transfer of assets from the primary sector is far from having proved its effectiveness and constitutes now an outdated design.

On the contrary, since the food crisis of 2007/08, strategies based on the development of agriculture seem to have more and more success. In addition to addressing the true causes of migration, lifting hundreds of millions of peasant families out of poverty would be an unprecedented boost to demand, which is synonymous with growth and full employment of factors of production on a global scale⁴.

d- Support the environmental and energy transition:

European agriculture is one of the sectors that has experienced, over the long period, the greatest increase in the physical productivity of labor. With genetic selection, the development of Petrochemistry is one of the main determinants of this development: it has enabled mechanization and the use of synthetic fertilizers and phytopharmaceutical products. The increase in yields has been accompanied by an improvement in their regularity and the safety of products.

⁴ This is the conclusion underlined in the report from the International Assessment of Agriculture Knowledge Science and Technology for Development (IAASTD) in 2008.

Growing fears about the impact on health and the environment of the use of plant protection products as well as the negative consequences of a specialization considered too important for agriculture in certain territories are the basis of a deep questioning on the evolution of production systems. Mobilizing more the functionalities of ecosystems such as functional biodiversity and biological regulation, seeking efficiency in the use of resources and greater autonomy of the systems in a logic of circular economy are a virtuous way of evolution for a transition towards more sustainable agriculture.

However, the stakes of food safety and the maintenance of a sufficient level of production lead us to think of this transition not as a negation of the previous evolution but as the search for a compromise between continuity in the technical mastery and decision-making risk in the withdrawal of certain uses.

The struggle and adaptation to climate change are important challenges for agriculture. Carbon storage in agricultural and forest soils is one of the most important levers for offsetting greenhouse gas emissions from fossil fuels. The development of the exploitation of biomass for energy purposes and plant chemistry also offer promising prospects for an agricultural sector whose emergence from petrochemicals had confined it to the sole purpose of food.

e- And their interactions:

In order to optimize the achievement of these four objectives, it is obviously a matter of avoiding the logics of silos in order, on the contrary, to take advantage of the interactions and synergistic effects associated. For example, the interactions between transition and farm income: by generating new activities for farmers, the environmental and energy transition is a new source of income and attractiveness for the agricultural sector; and, at the same time, this transition can not be done without additional labor and without the investment of men and women in their territory. Similarly, the stabilization of agricultural markets is a necessary condition for food security and for the environmental and energy transition because the yoyo of the markets and the absence of long-term visibility are, from this point of view, negative factors. And conversely, the development of plant chemistry and the bioeconomy offers a more variable outlet than food, therefore usable to cushion supply fluctuations while prioritizing food use in favor of greater food security.

2. A four-pillar CAP

Declining the four objectives set out above in terms of programs and actions requires a review of the CAP architecture as it currently exists. We propose a CAP organized into 4 pillars: the first two aim to improve the economic organization of producers and the integrity of the common European market against the occurrence of crises. Depending on whether they are differentiated products and / or registered in strong territorial logic (eg wines, fruits and vegetables, PDO cheeses) or commodities highly dependent on international prices (eg cereals, sugar, milk powder) the relative importance of the first two pillars for each sector may vary. Livestock generally suffers from a deficit of economic organization which must be remedied in order to rebalance the bargaining power of producers.

The second pillar takes over from the current first pillar while profoundly changing its nature, since decoupled aids give way to countercyclical aid and to measures to make biofuel production more flexible. As for the first pillar, it will regroup the measures resulting from a regulatory policy favoring the economic organization of the sectors.

The last two pillars will take up the scope of the current second pillar: the third deals with support in the environmental and energy transition in a contractual approach for a global valuation of environmental services including in areas with natural handicap, and the fourth prioritizes the renewal of generations in agriculture and the modernization of individual and collective production tools. We are not developing here the strengthening of food aid programs, which nevertheless seems necessary to us. The diagram below provides an overview of the new 4-pillar architecture.

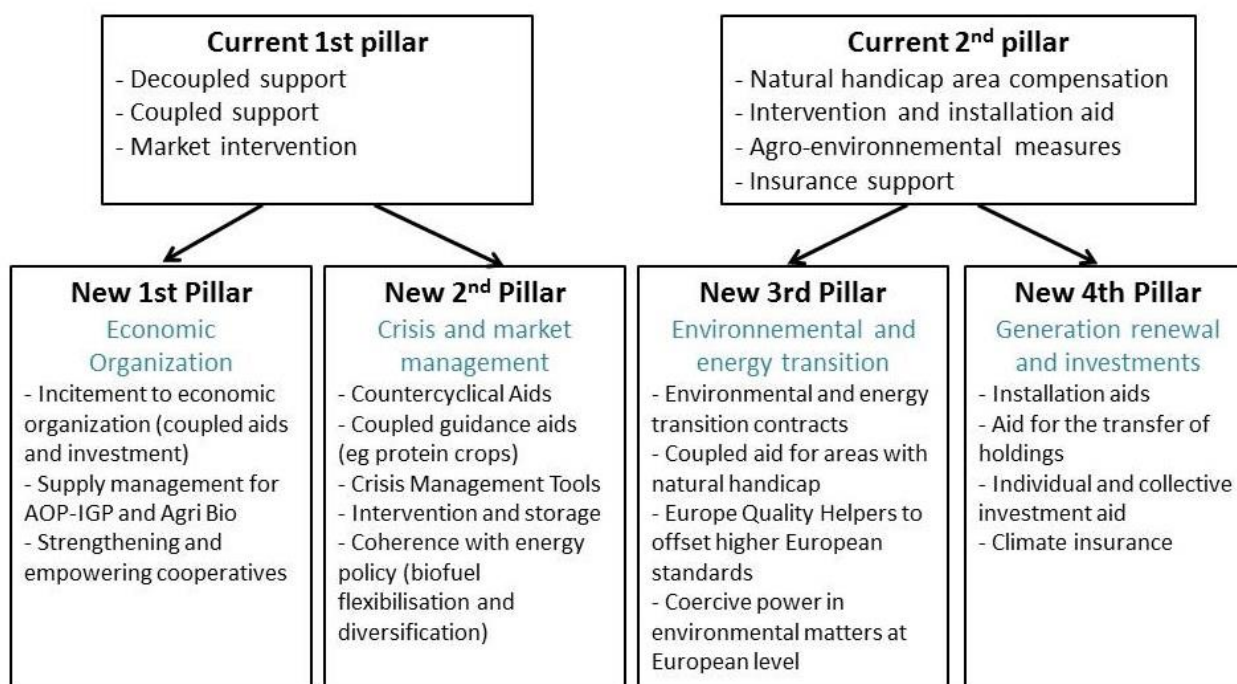


Figure 2 : A new CAP with 4 pillars

Pillar 1: Strengthen the economic organization to rebalance bargaining powers

The movement of concentration observed in the agro-food processing, distribution and also agricultural upstream (machinery, phytosanitary products, fertilizers, seeds) is about to be translated into an oligopolistic situation in Europe and on a global scale. On the other hand, the level of competition between producers seems excessive in view of its negative consequences in terms of imbalances in negotiating powers. For a long time, the establishment of agricultural cooperatives and defense unions has been a way of overcoming this structural imbalance, as have market regulation measures.

Thanks to their commercial strength and their capacity to develop new markets and diversification activities for their members, cooperatives are an important lever to drive the matching of supply and demand and the sharing of added value within sectors and territories. Their status and governance push them to place the values of social responsibility and the interests of their members at the heart of their strategies. This is the most successful form of producer organization (PO). Other forms of POs, especially those that are not at any time holders of the product to be marketed, are much less effective because they are never in a position to adjust the supply of their members.

One of the main lessons of the French Food Summit is the need to improve the economic organization of producers to allow a fairer sharing of value within the sectors. This evolution is primarily the responsibility of the farmers themselves, but the public authorities can also support this movement either by direct incentives (conditionality of certain aids, assumption of part of the operating costs of POs, etc.) or by making the constitution and participation in these structures more attractive by providing them with levers to ensure their effectiveness.

Thus, the exception scheme in terms of application of the CAP for the fruit and vegetable and wine sectors is now used as a reference in the sense that they have given up decoupled aid in order to prefer structuring finance for modernization and collective organization. The granting of these aids is subject to the definition of a national strategy established in consultation with the main stakeholders, which makes it possible to operate a first level of prioritization and arbitration. Others, such as the sheep industry, have also chosen to package some of the aids coupled with participation in a collective approach.

In addition, since 2010, for cheeses benefiting from a protected geographical indication such as Comté, producer organizations and interbranch organizations (which also involve processing) have the Community regulatory framework to collectively regulate cheese supply under Protected Geographical Indication (PGI). Actors are then better able to anticipate changes in consumption and steer the sharing of added value throughout the sector. The leverage of the supply management is sufficiently structuring that it constitutes the cement for the collective approaches.

In addition to cheese, all productions under PGI should be able to use this lever of integration and mastery of added value. The organic farming sectors, which currently benefit from significant growth in consumption, should also be able to use this type of levers to manage the periods when, production catching up with consumption, the possibility of mastering the decommissioning of a part of the production at a conventional price would stabilize the whole chain.

In sectors and territories already organized, the action of producer cooperatives in developing new outlets for their members and seeking a better match of their offer with the effective demand must be fully recognized in order to protect this lever of accountability. vis-à-vis short-term pressures and postures.

Proposals for in-depth reform: Pillar 1

- Extend the logic of fruit and vegetable and wine-making CMOs to all sectors suffering from organizational weaknesses (notably livestock farming), by conditioning certain public subsidies to participation in a cooperative or any other less accomplished producer organization.
- Extend the regulation of supply granted in 2010 to the dairy sector to all products under geographical indications and products from organic farming.
- Consider cooperatives as the first level of regulation of the entire system.

Pillar 2: Ensuring the integrity of the EU market with respect to crises

No one can bring oneself to see a crisis situation endure, including in agriculture. Price adjustments are too long not to be accompanied by crisis management measures, or even prevention when the warning signs occur. The integrity of the European market requires appropriate means at Community level to remedy imbalances, especially when the levers available to organized producers are not sufficient.

Aid for the milk production reduction scheme successfully tested in 2016 at the worst of the milk crisis must foreshadow innovative measures that the Commission, as a sectoral regulatory body, must be able to mobilize. Given the limits of public intervention purchases, which are still necessary but weakly effective in a world without export subsidies, supply reduction measures are essential. To this end, the Commission must be able to have at its disposal a crisis reserve, not pre-spotted to the Member States, to finance these emergency measures.

Moreover, for products directly subject to international trade prices because of the EU's net exporter status, the appropriate support tools must be offered to producers. In first place, counter-cyclical aids - which vary with prices and which limit the exposure of farmers to international markets generally characterized by dumping prices. With respect to decoupled support by fixed definition, counter-cyclical assistance makes it possible to improve the efficiency of the use of budgetary resources. And combined with crisis management measures, they could give the CAP a real added value in the Community, which is not currently the case where we are more in a logic of budgetary consumption.

In addition, the search for greater efficiency in the use of subsidies to achieve the objective of income support must also be accompanied by provisions allowing a certain amount of degressivity to be introduced into the distribution of aid, in order to jointly limit artificial incentives to concentration.

The relative level of counter-cyclical trigger prices may also be established in such a way as to rebalance between surplus productions in search of outlets and products to be developed. This is also the case for production-linked aids which must be able to be used to drive the evolution of European production so as to optimize land use. One thinks in particular of the necessary rebalancing between cereals and oilseed at the European scale. It is essential to restore the capacity of production orientation to the CAP tools to better control the integration of the EU into international trade.

The public storage policy must also be revised. The example of stocks of milk powder accumulated at the height of the crisis in 2015-2016 shows that the sectoral regulator must have latitude to avoid the depressive effect of stocks thus formed. However, contributing to global food security also requires Europe to participate more actively in the global end-of-season stock so that the level of the latter is sufficient to avoid devastating price spikes and their political repercussions. Compared with China or the United States, European carry-out stocks are consistently the lowest for cereals while Europe is a major player in terms of production. As a result of the wanderings of the early 1980s, it is necessary to go beyond this sort of "European aversion to stocks", especially if the geostrategic objective of contributing to the supply of historical buyers of European grains is maintained.

Ensuring the integrity of the European market also means improving the coherence between the CAP and the European energy policy. It is paradoxical, to say the least, that we do not discuss the biofuel policy in the context of the CAP, even though it should be remembered that this sector was born out of decisions concerning the possibility of using fallow land. Beyond the competition between food and non-food use, biofuels should be seen as a means to cushion the high volatility of agricultural and food prices. In fact, by adjusting the mandates for incorporation into fuels, even if it compensates for the underutilization of processing capacity, biofuels can be much more stabilizing than public stocks, which, once constituted, have a depressive effect on fuel prices. China and Brazil are not mistaken and continue to develop the production of ethanol from cereals or sugar for this purpose. In addition, better coherence between agricultural and political policies will provide more opportunities for diversification into renewable energy production.

- Set up counter-cyclical subsidies for productions directly connected to international prices.
- Have crisis measures aimed at rebalancing supply and demand (example: voluntary assistance to reduce milk production in 2016).
- Have a multiannual crisis reserve to enable the Commission, as a sectoral regulator, to finance interventions.
- Piloting the integration of European agriculture into international trade by playing on the reference prices for counter-cyclical aid and aid coupled with production.
- To understand the issue of stocks from the perspective of participation in world food security.
- Make the CAP consistent with energy policy, in particular by making the mandates for incorporating biofuels into fuels more flexible.

Pillar 3: Build an Environmental and Energy Transition Strategy for Production Systems on Contractual Approaches

Encouraging actors to take the risks of change requires securing them. This principle is particularly valid for farmers with regard to the protection of the environment. While producing at the lowest costs to "compete in global markets" remains the first order, it is not surprising that the record of the environmental component of the CAP is so low.

As a profound reform of the CAP will lead to the security of farmers through better economic organization and crisis management, the conditions will be met to define a new political pact where farmers will be more inclined to take the risks of changing practices and seize the opportunities of environmental and energy transition.

It is hard to accept that the constraints imposed on European producers are greater than those on imports, especially in a logic where Europe would put in the balance the access to its internal market to advance towards sustainability the norms and standards of production. This implies taking into account the production methods in the trade restrictions, which is not really allowed by the WTO rules at present. In the absence of border compensation, the differential pressure of the standards could be offset by a decoupled aid per hectare, not linked to production, a Quality Aid Europe, as defined in the Momagri white paper for a amount assessed at a flat rate of 75 € / ha⁵.

⁵ Cf. le Livre Blanc de Momagri, « un nouveau cap stratégique pour la PAC », décembre 2017.
<http://www.agriculture-strategies.eu/wp-content/uploads/2018/02/Livre-Blanc-2017-final.pdf>

The interactions between agricultural production and the various compartments of the environment are numerous and complex, can be positive or negative, depend on the effect of thresholds sometimes at the scale of a territory and are generally difficult to quantify and report to the practices of a single farm. Therefore, designing measures that would directly operationalize the concepts of internalising externalities and remunerating environmental services is at a level of complexity that is almost unattainable. This is even impossible when it comes to designing them on the basis of decoupled aids that we would like them to contribute to support farmers' income: in this respect, the greening of the first pillar is no longer credible track.

On the other hand, the approaches based on contracts involving the farmer and centered on the coherence of a production system in a search for overall optimization, have proved their efficiency and their acceptability by farmers .

In this way, it is not possible to get out of an obligation relating to the means (practices) implemented by the farmer to move towards a results-based approach (environmental impacts). However, the main exception seems to be soil carbon sequestration as it is measurable and can be directly related to the individual farmer. Also the prospect of a new European carbon market can be seen as an opportunity to find complementary resources to the CAP to finance the environmental and energy transition.

To accompany the transition of production systems, the contractual approach adopted for the AECM (Agro-Environmental and Climatic Measures) seems the most relevant. The challenge is therefore not so much that of the tools as of the budgetary means allocated to the AECMs, knowing that competition could be keen in the case of the development of risk management instruments such as mutual economic funds. Faced with the logic of greening, we propose to affirm the existing logic by renaming the AECM Environmental and Energetic Transition Contract (Etec). Like the Territorial Exploitation Contracts of the early 2000s, these ETECs will have to include a component of investment aids and will encourage collective approaches.

Beyond the transition of production systems, the maintenance of virtuous systems will also have to be recognized in the name of all the environmental services they offer. By definition, there are no markets for remunerating environmental public goods, so it is illusory to think of restricting support to transition only. This is particularly true for organic farming.

This is also the case for production systems in areas with natural handicaps where the maintenance of production is necessary in view of the services rendered. It therefore seems that, in addition to the ETECs specific to these territories, aid coupled with production, in particular animal production, could usefully replace the current logic that went astray in thinking of breaking the link between agricultural activity and environmental services. rendered. It will always be more efficient to provide aids coupled with ewes or cows, increased in zones with natural handicap, than to buy mowers and trimmers.

Finally, the importance of maintaining a high level of coercion at Community level will be underlined because too much room for subsidiarity can only be reflected in at least one race between the Member States. This should particularly concern measures to avoid too much geographical concentration of livestock activities in certain regions. We are thinking in particular of the derogations that have benefited the Dutch breeders, which did not, however, prevent the manure frauds.

Proposals for an in-depth reform: Pillar 3

- Building a transition strategy for production systems first requires that farmers be economically secure.
- Align the standards and production standards imposed on European farmers with those in force for importers.
- Give up the greening of decoupled aid, which is a stalemate for both the effectiveness of income support and the protection of natural resources.
- Prefer contractual measures to accompany transitions on the basis of an overall optimization of each type of production system.
- Recognize that, just like the transition, the maintenance of virtuous practices must also be able to claim payments in the name of environmental services rendered.
- To perpetuate the policy in favor of areas with natural handicap by reinforcing support for productive activity through coupled aid.
- Maintain the level of environmental coercion at the community level to avoid least competition.

Pillar 4: Restoring aids to installation and investment

Installation aid is an important symbol for new generations of farmers. In view of the age pyramid, the renewal of the generations is a real challenge for the next decade. Successful reopening requires anticipation and preparation especially for installations outside the family. Previously, the distribution of production rights and / or payment entitlements (suckler cow maintenance premium) to established young people was an important lever for structuring and providing perspectives for an installation project.

Mobilizing preferential investment aid in the context of recovery and installation projects should be a complementary lever to the aid for the installation, which remains a fairly modest amount in terms of the capital to be mobilized for a young farmer . This seems all the more important since the tax rules on the resumption of operations and the capitalization effects of certain rights and aids in the value of assets constitute obstacles. generational renewal that needs to be finely apprehended for questions of the effectiveness of public intervention and intergenerational solidarity.

In addition, resumption of operations is the appropriate time to reconfigure production systems towards greater sustainability and avoid deadlocks. In addition to aid for installation, a program to support the transfer of holdings must be designed by mobilizing all the levers (taxation, access to land, aid to the seller, etc.) to anticipate and accompany cessation projects. of farms.

Investment aid must be able to fully support the support of environmental and energy transition projects. They are also a lever for the emergence and consolidation of research approaches to better valuations for productions.

These projects must be able to register as much as possible in collective approaches in order to benefit from the networks and solidarity effects that are essential for the sustainability of agricultural activity in the territories. In this respect, the facilitation of rural areas, in the framework of LEADER actions in particular, remains indispensable, particularly in the most disadvantaged areas.

Finally, as much as it is a question of being very reserved about the interest of the insurance as cover against the risks related to the malfunctions of the markets, as the insurances for the climatic risks offer the possibility to the farmers to protect their tool of production against the hazards weather and secure the investments they have made. The same is true for health risks that can strongly and permanently affect entire regions. In order to avoid anti-selection phenomena, support for insurance premiums should make it possible not to hunt the least exposed individuals in such a way as to be able to provide a sufficiently wide basis for the pooling of risks to take place. The same is true for mutual funds that are of interest when it comes to managing health and environmental risks.

Proposals for in-depth reform: Pillar 4

- Prioritize the challenge of generational renewal in agriculture
- Anticipate the cessation of activity to register the installation projects in a real program of transmission of holdings
- Preferentially use investment aids for generational renewal, the period of transmission being the opportune time to initiate transitions and break the deadlock.
- Encourage collective investment projects for environmental and energy transition and the search for valuations.
- Continue to support insurance against climate risks and mutual health and environmental funds

3. Budget envelope and institutional feasibility

a. A stabilized multiannual envelope for better budgetary efficiency

At this stage, the principles for reform of the CAP developed here must be multiannual envelope stabilized compared to the 2014/2020 envelope on the basis of a better budget efficiency as reflected in the four pillars.

The CAP adaptation effort that we are recommending aims to deploy a political project in line with the needs of an agriculture faced with a recurrence of crises due largely to the inadequacy of intervention methods. in a changing international context.

Thus, the simulations proposed by the European Commission for the informal Council of Heads of State of 23 February 2018 denote a disembodied approach to realities by going directly to assumptions of changes in the CAP envelope for the period 2020/27 which are based on reductions of 15 or 30%.

In question, a conjunctural event Brexit that reduces the level of resources and the emergence of unsuccessful policies but whose cost increases without reaching a significant level: Defense, border protection and migration. But as the Commission has a constant global budget, for lack of a concrete project for these policies in the making, this exercise totally distorts the strategic perspective because it amounts to introducing in a totally hypothetical way a swelling of some European policies in a fixed envelope, according to the well-known technique of "budget shoe buckle".

The result is catastrophic because it leads, especially in the agricultural world, to anchor the idea that the CAP is condemned to allow Europe to grow.

It is this path that has just been confirmed by the European Commission in the two recent communications on the multiannual financial framework and the post-2020 CAP, the reduction of which would be recalled by 15%, at least in constant euros.

Approach that demonstrates the lack of strategic thinking on the future of the CAP. Certainly the path of European negotiation is complex and beginning with the end simplifies things. It will certainly be more difficult to put the process back in place and to initiate a real reform like the one we are advocating.

As part of Momagri, which Agriculture Strategies took over, we proceeded with in-depth budgetary simulations based on market price developments and a budget model centered on countercyclical subsidies, limited public storage and "Quality Europe Aid", a kind of decoupled aid per hectare, offsetting higher European standards (see the white paper of 18 December 2017⁶). However, these simulations relating to the cereals, dairy and oilseeds sectors, subject to the volatility of international markets and which receive 60% of the first pillar expenditure, show, all other things being equal, an economy of almost three billion euros a year, for the years 2011 to 2020, despite several years of depressed prices in the three sectors concerned.

They also highlight the positive effect of a countercyclical logic in terms of income stabilization, much more than decoupled aid (DPB) in the current CAP.

⁶ <http://www.agriculture-strategies.eu/wp-content/uploads/2018/02/Livre-Blanc-2017-final.pdf>

However, compared to the principles underlying the four pillars presented in this dossier, the most costly expenditures are those that correspond precisely to the "new pillar 2": crisis management and market management. The other adaptations that we propose stand out more than a change in the regulations, a redeployment of appropriations (essentially the current second pillar) and a redrawing of budgetary responsibilities between the European, national or regional levels.

It should be noted that countercyclical aids are determined on the basis of historical areas and yields, which will avoid any impact on the level of production. In addition, the determination of equilibrium prices and floor prices will be based on the economic reality of cost and fiscal feasibility targets in line with the multiannual financial framework. There is therefore no risk of fiscal slippage in a system that will be under control while having a much better European added value.

Therefore, it can already be said that the Agricultural Strategies reform project can be accomplished without additional resources, or even savings in years when prices are around equilibrium prices.

b. In compliance with the Treaties, the Financial Regulation and the Competition Law.

The basis for an in-depth reform of the CAP proposed here does not imply any change in the European Treaties. On the contrary, it is even a question of reconnecting with the spirit of the Treaty of Rome in its objectives. The same is true of the budgetary aspects. The logic of annuality in the payment of aid of the first pillar does not answer any constraint of a regulatory order, it is mainly a search for facility in the management of aid whose legitimacy is eroded for want of a legitimacy sufficiently established, all in a context of political paralysis of a Europe without agricultural cape.

The Momagri White Paper has previously shown that the implementation of counter-cyclical assistance did not require any modification of the Financial Regulations and Treaties. However, in the face of unstable markets, an effective policy can not be agreed without being based on variable budgets, built according to the annual budgetary logic and the use of amending budgets during the year, provided that it complies with the limit multiannual period provided for in the financial perspective. Moreover, to ensure the proper functioning of such systems when several years of crisis follow one another, it is planned to resort to a reserve fund which will have been constituted by the freezing of part of the multiannual financial envelope from the beginning of the year. the period. This reserve should, for agriculture, be of the order of 10 billion euros (3% of the multiannual envelope) so as to be sufficient. This is in line with the European reflection of a budgetary reserve much more consistent (21 to 28 billion euros) than the 450 million in the current envelope and remains, quite paradoxically, unused. The diagram below illustrates the proposed budgetary mechanics.

⁷ <http://www.momagri.org/FR/articles/Pourquoi-les-propositions-de-Momagri-respectent-pleinement-les-Traites-et-reglements-de-l-Union-europeenne-1855.html>

Annual budget management layout

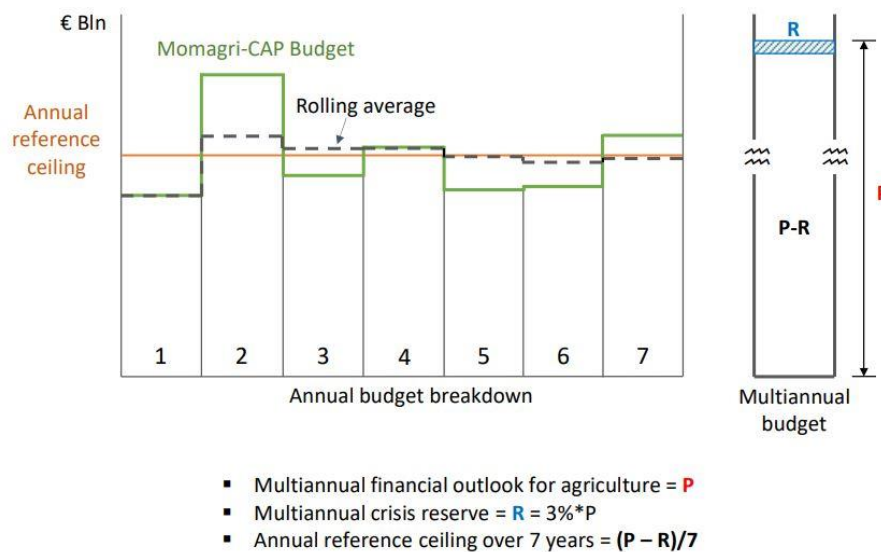


Figure 3 : Annual budget management layout

By calling national contributions in a variable way because closer to the needs, it will not be necessary to resort to a multi-annual budget where credits would be transferred from one year to another. This would remove the logic of budgetary consumption that currently prevails.

Going further in the search for efficiency in the use of the public funds of the CAP also implies entering into a policy-mix logic between compensatory budgetary measures on the one hand, and crisis management on the other. We therefore propose that the Commission's action to ensure the integrity of the Community agricultural market is part of a real performance framework establishing the indicators and targets needed to optimize trade-offs. In this way, a virtuous dialogue can be established between the Commission and the Budgetary Authority (Council and Parliament). It is indeed remarkable that, at this stage, the lion's share of the CAP budget is not affected by any of the sound management procedures, which the Commission has largely put forward to the managing authorities of the European funds⁷.

The principle of subsidiarity means that the responsibility for public policy lies with the most effective institutional level in achieving the objectives. If the increasing weight of the Regions in the declination of tools and their management is for investment aids and agri-environmental measures, the Community level, guarantor of the integrity of the Community market, can no more seek to discard responsibility for crisis management and income support for farmers.

Finally, if all the tools proposed in this reform project are compatible with the Financial Treaties, this is also the case with regard to competition law. Indeed, the question of the Euro-compatibility of reform proposals is often put forward by opponents of change, whereas in fact the Community

⁷ Cf The European Court of Auditors' report on basic payment entitlements and greening payments

institutional framework is already wide enough. If we sometimes hear that competition law would explain the poor organization of producers, it is not so. The Member States of Northern Europe are demonstrating that the concentration of cooperatives is still far from being considered excessive to call for restrictive measures; and less successful forms, such as producer organizations, already have important latitudes. Finally, the changes made by the Milk Package in 2010 and validated by the Omnibus regulation in 2017 show that it is possible, without this being considered an attack on competition, to organize a control of the supply at the level of stakeholders involved in the production and processing of quality production. This is indeed the way for economic operators to find the right match between supply and demand, which is done by each company which in principle has no interest in unbalancing its own market.

In conclusion

The Common Agricultural Policy, the European construction and multilateralism in agriculture and food are at a pivotal stage of their respective trajectories. The CAP and the WTO are at the end of the cycle, the European Union can no longer take refuge behind the argument of WTO rules to justify the powerlessness of the CAP to respond to the difficulties of European agriculture and the inability to provide future prospects. More broadly, the political Europe will continue to be built if it assumes its failures and takes its responsibilities vis-à-vis a multilateralism in crisis. By rediscovering the spirit of the founding fathers of the Treaty of Rome, an in-depth reform as outlined here will once again make the European project attractive. At a time when all the world's powerhouses are strengthening their agricultural policies, Brexit cannot be a major determinant of the next reform of the CAP. Agriculture cannot be reduced to a simple sector of the economy. It is our food, our relationship to the living, our common history and the balance of our territories that are in question. Agriculture is at the heart of the challenges of the 21st century. An in-depth reform of the CAP and the WTO is possible and necessary.

This strategic reference note launches a reflection. It will be followed by additions that will deepen the budget analysis and the implementation framework on which a debate can begin at European level. This is how the transition to the new system proposed by Agriculture Strategies will be approached as a gradual decrease in decoupled subsidies. This subject is particularly sensitive given their share of farmers' income today, in particular in a time of crisis.

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