SCENARIOS OF EVOLUTION FOR COMMON AGRICULTURAL POLICY IN THE CONTEXT OF COVID-19 CRISIS. IMPLICATIONS FOR THE RIGHTS OF EU FARMERS

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Abstract: This paper presents the impact of three possible scenarios for the future of Common Agricultural Policy (CAP) in the post-2020 period, using the most recent data from European Commission while depicting also the possible outcomes of COVID-19 crisis outburst for EU farmers' rights and obligations, especially concerning the Direct Payments mechanism. Many analysis have underlined that during COVID-19 crisis it is mandatory that the agricultural sector must be supported in order to ensure that food and other processing facilities remains operational, while protecting farmers income, but in our opinion it is also equally important that farmers should use the direct payments for their initial objective, avoiding unnecessary spending and preserving farming ethics in practice, while keeping the balance between gains and integrity. The objective of our research is to underline the advantages and disadvantages of the CAP scenarios regarding: agricultural production, product prices, and trade in agricultural products, farm incomes and employment in rural areas. Finally, we will conclude on which of this scenarios is best suited for achieving sustainable economic growth in rural areas and for increasing food security at EU level, while highlighting the main changes that COVID-19 crisis may trigger.

Keywords: *Common Agricultural Policy, Direct Payments, COVID-19 crisis, EU farmers*

1. Introduction – the Common Agricultural Policy post 2020

Since its adoption (in 1962) and until now, the Common Agricultural Policy (CAP) has been, without a doubt, the most contested and

reformed common European policy. Throughout its evolution, the CAP has transformed from a policy of direct support, through the single quota system, into one that supports sustainable development, through the measures and objectives introduced by the adoption of Pillar II (for rural development). The most recent reform of the CAP, the one of 2013, finalized the decoupling of the production of the support granted to the farmers, introducing the multifunctional support system. Presently CAP has the largest budget, compared to all the other common EU policies, being in the post-2020 period, through the regulations adopted regarding the "green" development of the European agricultural sector, an important pillar of the sustainable economic development of the EU. Taking these into account, the objective of our research is to investigate the potential effects of possible scenarios of post-2020 CAP evolution on the agricultural sector, but also the consequences of the COVID-19 crisis for European farmers, especially regarding the direct payments system.

Currently, the European farmers are and should remain the main beneficiaries of CAP, because the farming is the backbone of the agricultural sector development, being supported not only through direct payment mechanism, but also through RDPs (rural development programmes). Presently it is undeniable that while food production, water management, land use, and animal and public health are all topics of extensive public debate, these themes are linked to the core activities of the agricultural sector, and more specifically to the work of farmers, while being also the subject of ethical discussions. While the direct support during COVID-19 crisis is mandatory to enable the European farmers to cope with the negative economic effects, this support should not lead to unethical gains and maintaining the subsidies through the future CAP should be balanced by the farmers' moral belief and ethical integrity (Rotaru 2014, 219), preventing unethical increases of prices of agricultural products. Recent research shows that farmers have moral beliefs and convictions that appear to be broader than economic considerations, hence entrusting farmers with professional autonomy concerning moral matters related to farming could be beneficial for the future of CAP as a whole.

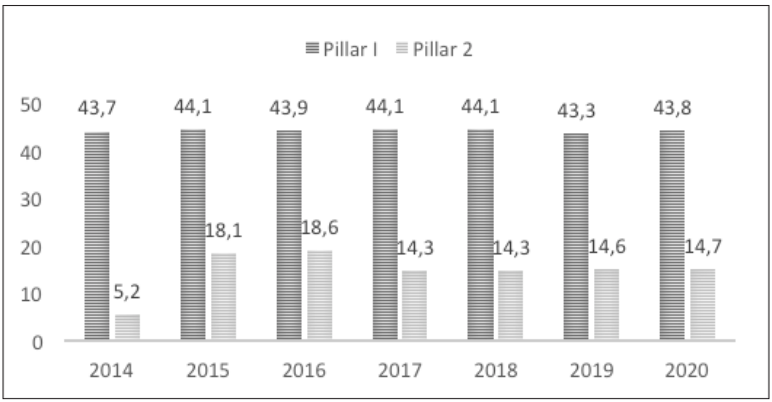
Currently, some analyses (EC, a, 2017) emphasize that the future CAP is unquestionably linked to ensuring and preserving food security in the EU. Moreover, due to the current structure of this policy (in the two pillars: agriculture and markets - Pillar I and rural development - Pillar

II, with separate fund allocations, see chart 1), ensuring food security has been and remains a key objective of CAP.

However, studies conducted at European level (EC, b, 2017) emphasize that the "one size fits all" approach is no longer appropriate for achieving the CAP objectives, especially in the context of the current external and internal challenges for EU as a whole. That is why the new CAP regulations in the current budgetary framework should focus on decentralization, reducing bureaucratic burden, facilitating farmers' access to European funds and, although the general objectives of the CAP regulations are still set at European level, the new CAP during post-2020 time framework should offer the opportunity of all Member States to determine which mix of measures is most appropriate for meeting their agricultural and rural development objectives at national level.

If we look at the current distribution of CAP funds, we can see that Pillar I still has a higher priority and a greater allocation of funds, and it should be noted that, within it, food security is regarded as an important objective (chart 1).

Chart 1: Budgetary allocations for CAP during 2014-2020 (EUR billions)



Source: Author, based on DG Agricultural & Rural Development data

2. Three possible scenarios for CAP's future and the uncertainty brought by COVID-19 crisis outburst

Currently, there are three types of factors that can influence the agricultural sector in the EU, given the current CAP regulations: environmental factors, economic factors and social factors.

Environmental factors include, in particular, the challenges caused by climate change and the expected impact on agricultural production, as well as CAP regulations regarding the acceptance of genetic changes in agriculture. The economic factors concern the structure of the budget allocated according to the current regulations, and the social factors refer to aspects such as the demographic structure with maintaining the urban-rural gap, the number of farms in the EU, which is on a downward trend in the context of the current regulations, but also consumer preferences (currently European consumers' preference for high protein consumption is expected to be maintained, and environmental and animal protection legislation will have a significant impact on it).

Taking into account the factors listed above, we believe that are possible *three scenarios* for the future of CAP.

The "green" scenario: it implies giving a strategic importance to the sustainability component, support directed towards the protection of the environment, but also for the income of the farmers. This scenario envisages an evolution of EU agricultural policy regulations as part of a general EU strategy that has as its central objective the sustainable development and support of the circular economy by 2030.

In line with this vision, the agricultural sector, as a central element of land conservation and environmental protection and eco-systems, must ensure the sustainable use of natural resources at EU level and the preservation of rural landscapes. However, the provision of food and food security at EU level remains a priority, and the aim of CAP regulations is to help farmers contribute to achieving this balance between sustainability and production. To achieve this scenario, the main assumptions are as follows: the CAP budget is maintained at the current level; the base of direct payments is substantially reduced and the process of internal convergence is continued; adjacent direct payments may be granted to meet more demanding environmental requirements (crop rotation, ecological areas); minimizing coupled support and granting only for certain specific requirements; giving up price support measures; increasing support for Pillar II through additional agri-environment funds and measures to combat climate change; maintaining sanitary and phytosanitary measures regarding the import, export and transit of agricultural goods into EU; increasing the targets for reducing greenhouse gas emissions, including for agriculture.

The *"liberty and productivity"* scenario: involves a Common Agricultural Policy which focuses on the supply of high quality agricultural products and food within a competitive global market. This scenario assumes that future directions of development of the CAP will aim at transforming the EU into a global player in food security.

Under this scenario, the European agricultural sector is assumed to be geared towards producing competitive goods and earning only on the basis of markets, and support for market measures would be totally abolished by 2030. Support measures under the CAP would according to this hypothesis to focus only on competitiveness and innovation, but also on restructuring, so that these objectives are achieved. It is known that market competitiveness can be achieved not only by reducing costs, but also through economic optimization, and, according to them, European farmers should direct their activity towards the goods for which there is global demand. However, given the volatile nature of agricultural markets, caused by unforeseen climatic events or the possibility of many diseases occurring in livestock, this CAP orientation would subject European farmers to large price fluctuations, with an immediate impact on their incomes. As a result, it would be necessary, in this scenario, to introduce security measures to support farmers in the years with diminished financial gains. But due to the asymmetrical nature and the possible systemic risks also induced by support schemes, it would be necessary to create a tool to stabilize the income at EU level. The assumptions of this scenario also include: abolishing the direct payments system (including the"green ones"), eliminating the coupled support, drastically reducing the rural development programs, while maintaining only a few measures and schemes (support for young farmers, investments in farm modernization and human capital). It should be noted that such a system would imply that the EU is ready to implement the necessary measures for a strong liberty of markets, but also to achieve progress in signing more bilateral trade agreements. Given the current global context, marked by the outbreak and continuation of trade wars, progress on negotiating trade agreements is expected to be modest.

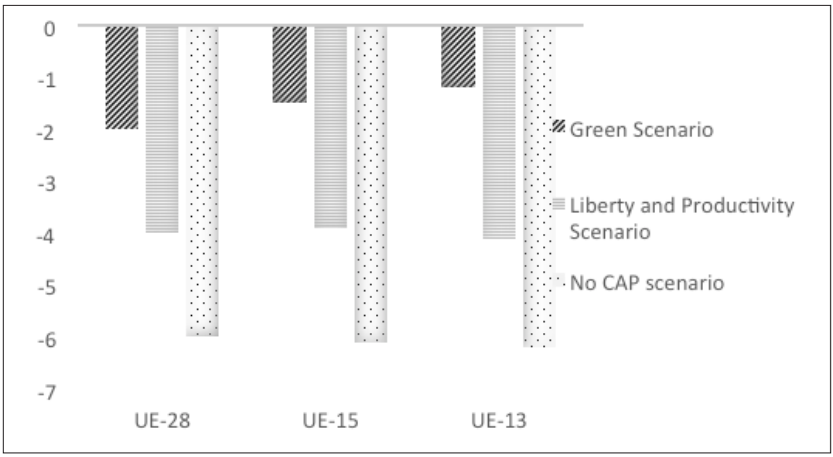
The "No CAP" scenario: this would be the harsher version of the scenario above and would involve the abolition of both Pillar I and Pillar II, as well as the elimination of all payments and subsidies. *It should be noted that, given the current provisions of the EU Treaty, as well as the undeniable benefits of the CAP to support the European agricultural sector and EU*

farmers, the No Cap scenario does not seem realistic to us. However, due to the COVID-19 crisis outburst, the second scenario seems more likely to be put in place while EU farmers are confronted with challenges to maintain their gains while losing market quotas because of trade and global value chain restrictions.

3. Consequences of CAP scenarios

If we consider the possible directions of evolution of the CAP financing, given the implications of the scenarios set out above, we can estimate that agricultural production could decrease by 1% (under the "liberty and productivity" scenario, but would remain relatively stable in the case of the "green" scenario. In the unlikely event of applying the "No CAP" scenario its decrease would be even more pronounced (see chart 2).

Chart 2: CAP scenario and EU agricultural production (%)



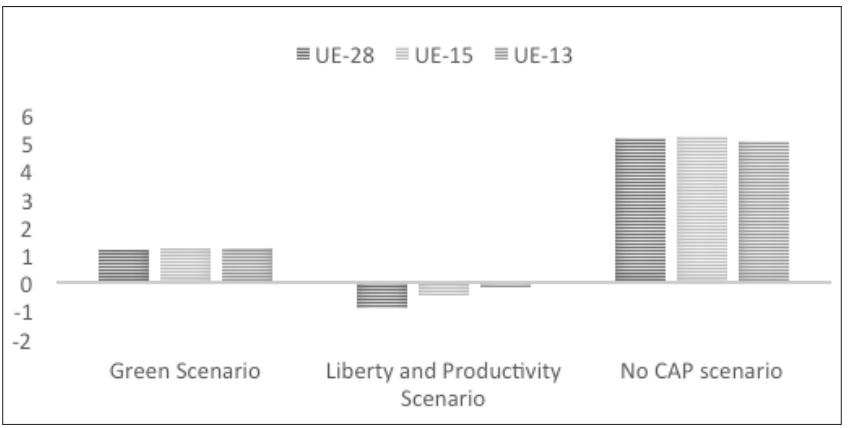
Source: Author, based on DG Agricultural & Rural Development data

From the sectoral point of view, the most notable difference between the three sectors appears in terms of dairy production which, under the scenario of "liberty and productivity", due to increased market access in many underdeveloped states, would increase by almost 1 %, while in the case of the "green" scenario, it would decrease by 1%. The biggest differences between the post-2020 CAP development scenarios appear when analysing the causes of change in agricultural production

at Community level. Thus, in the case of the "liberty and productivity" scenario, the increase of imports of agricultural products is the key factor contributing to the decrease of the EU's domestic production. In the case of the "green" scenario, the changes in the domestic policy represent the trigger for the change in production, while the trade flows remain almost unchanged, with a limited decrease in exports and a very small increase in imports. The biggest impact on the future evolution of the agricultural sector would naturally have the elimination of the first pillar of the CAP. According to an analysis (EC, 2019), the elimination of decoupled payments would have a negative effect on agricultural production throughout the European Union, contributing to a decrease of 4% (compared to a decrease of only 2% in the case of "green" scenario).

As a result of the lower decrease in agricultural production in the case of the "green scenario", prices for agricultural products could increase by 1%. In the case of the "liberty and productivity" scenario, prices for agricultural products could fall by 1%, because the more significant decrease of the European production would be offset by cheaper imports. With the elimination of direct payments under the Common Agricultural Policy (in the case of "No CAP" scenario), the much stronger decline of production across the EU (compared to the other two scenarios), could not be fully offset by imports, leading to a 5% increase in prices (chart 3).

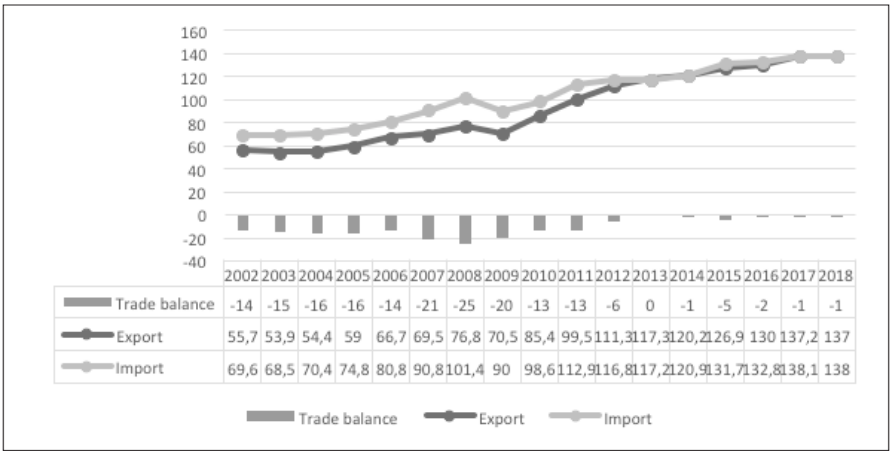
Chart 3: CAP scenarios impact on agricultural prices (%)



Source: Author, based on DG Agricultural & Rural Development data

Currently, given the current CAP regulations, the EU has been able to substantially reduce its dependency on imports of agricultural products, which is undoubtedly a positive factor for increasing food security at EU level. Thus, according to the latest statistics of DG Agriculture & Rural Development (2018), during the whole period 2002-2018, the EU trade in agricultural products has tripled in value, registering an annual average growth of 5.0%, with an average growth 5.8% of annual exports, higher than that of imports, which was only 4.3%. This trend clearly indicates that the EU has managed to increase its food security by reducing the import of agricultural products.

Chart 4: EU trade on agricultural products (EUR billion)



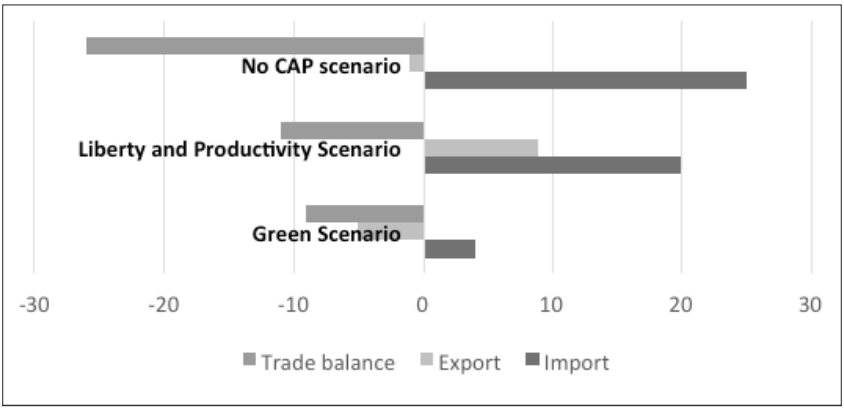
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Trade balance	-14	-15	-16	-16	-14	-21	-25	-20	-13	-13	-6	0	-1	-5	-2	-1	-1
Export	55,7	53,9	54,4	59	66,7	69,5	76,8	70,5	85,4	99,5	111,3	117,3	120,2	126,9	130	137,2	137
Import	69,6	68,5	70,4	74,8	80,8	90,8	101,4	90	98,6	112,9	116,8	117,2	120,9	131,7	132,8	138,1	138

Source: Author, based on DG Agricultural & Rural Development data

Given the outburst of COVID-19 crisis and import restrictions, the trade deficit on EU agricultural products could decrease even further, while EU farmers have the opportunity to increase their production while befitting for earlier direct payments.

In the case of all three scenarios analyzed, the imports of agricultural products increase much more than the exports (chart 5), leading to an increase of the trade balance deficit. Although exports grow significantly under the "liberty and productivity" scenario, they cannot offset the high level of imports. In the case of the scenario "without the Common Agricultural Policy", the deficit of the trade balance would increase significantly, leading the EU to the situation of net importer.

Chart 5: CAP scenarios impact on EU agricultural trade (EUR billions)



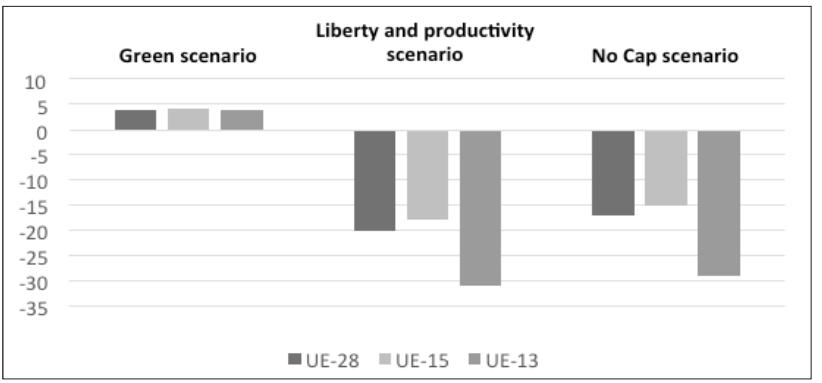
Source: Author, based on DG Agricultural & Rural Development data

Regarding the evolution of farm incomes in the case of the "green" scenario, the gross income of EU farms would increase by 4.5%, especially as a result of higher prices of agricultural products, given the other financing conditions under the Policy Agricultural Commune would remain stable. In the case of the "liberty and productivity" scenario, however, the strongest decrease in farm incomes would be recorded, as a result of the sharp decrease in production, this reduction being even lower than in the scenario "No CAP" scenario. It should be noted that EU-13 would be much more affected in terms of farm incomes compared to EU-15, this fact highlighting the high importance of the existence of the common direct payments mechanism for this group of Member States.

As concerning the impact of COVID-19 crisis on this indicator, it should be noted that since March 2020, the European Commission has started to build a strategy to support EU farmers in the context of COVID-19 crisis. Hence, in the event of serious market disruption, market support measures such as public intervention, APS (aids to private storage), withdrawal and other exceptional market measures will be available under the CAP. On April 2020, the SURE program was adopted allowing to set up a 100 EUR billion "solidarity instrument" to help workers keep their incomes and help businesses stay afloat. Through this program, farmers and fishermen will also receive support, while all of these measures are based on the current EU budget. Also as concerning direct payments a series of proposal are currently debated in order to

support EU farmers: granting more time to introduce applications for support and more time to allow administrations to process them; increasing advances for direct payments and rural development payments; offering additional flexibility for on-the-spot checks to minimize the need for physical contact and to reduce administrative burden.

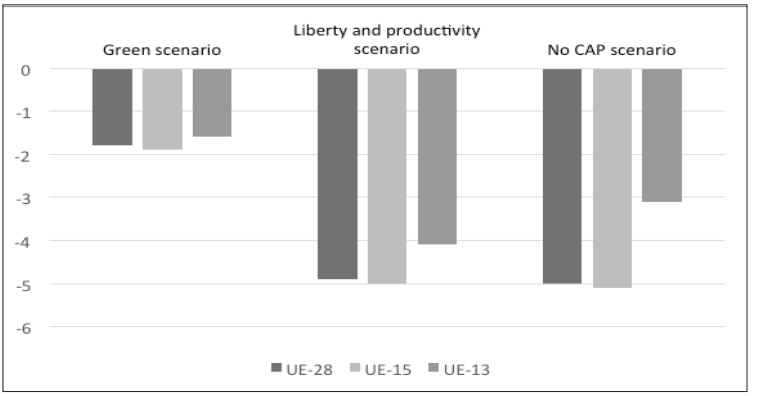
Chart 6: Impact of CAP scenarios on farm revenues (%)



Source: Author, based on DG Agricultural & Rural Development data

For all three scenarios analyzed, there is a negative effect on employment in the agricultural sector. Although the decrease in employment is pronounced in the case of the scenario "liberty and productivity", it being the most pronounced in the case of the "No CAP scenario", a decrease is observed also in the case of the "green" scenario.

Chart 7: Impact of CAP scenarios on agricultural employment (%)



Source: Author, based on DG Agricultural & Rural Development data

4. Conclusions

The future of the Common Agricultural Policy is currently undergoing a multitude of challenges and uncertainties: the early stage of discussions on the multiannual financial framework for 2021-2027, the impact of Brexit, the negotiations on free trade agreements and, most importantly, the shock wave of the COVID-19 crisis. However, as highlighted in our analysis above, the "green" scenario for the evolution of the CAP would bring the most benefits to food security (in terms of reducing EU import dependence on products), but also with regard to the incomes of European farms and the sustainable development of the Community agricultural sector. Moreover, taking into account the current global challenges, numerous analyses (Gocht, et al. 2017; Fellmann et al., 2017; Dudu et al., 2017) show that the future of the Common Agricultural Policy in the post-2020 period will be linked to the "green" component, especially in terms of direct payments (Drăgoi, Bâlgăr, 2015), but also under the imperative of increasing the competitiveness of the agricultural sector and of maintaining the upward trend of EU exports on the global market.

Also, the challenges brought on by the COVID-19 crisis show that without the direct payment support system, European farmers could not dedicate themselves to the objective of sustainability, which could have adverse consequences on the sustainable development of the EU agricultural sector. In the context of the COVID-19 crisis, the CAP facilitates farmers' rights and offers them new support mechanisms (the SURE system), thus becoming a vital policy for supporting the EU economy, but also for food security in the Member States.

However the new facilities brought by SURE system should be applied taking into consideration the relevance and limits of professional moral autonomy for the agricultural profession. If some preconditions are met by farmers, then this new type of economic autonomy can be relevant for farmers' integrity and for society while contributing to the quality of the public debate on the future of Common Agricultural Policy.

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