

To:
State Secretary of Economic Affairs, Agriculture and Innovation
Dr. H. Bleker
PO Box 20401
2500 EK The Hague

Subject : European Agricultural Policy as Catalyst for Transformation of Agriculture and Horticulture, advice RLI 2011-01
Date : 7 June 2011
Our ID : RLI 2011/01
Appendix : 1

Dear Mr Bleker,

As part of the work programme set by the Government for 2010-2011, the Councils for the Environment and Infrastructure (RLI) are currently carrying out a survey on the future of Dutch agriculture and horticulture and the agrifood cluster. As part of this survey, the government asked the councils to advise on guiding principles for a post-2013 Common Agricultural Policy (CAP) as a contribution to the negotiations in Brussels. The purpose of this letter is to answer that request.

The councils have taken the Government's Official Reaction to the Commission's Communication on the CAP¹ into consideration. In addition to this Reaction, the councils recommend that the transformation to a competitive, innovative and sustainable agrifood cluster should be the guiding principle in the CAP negotiations. In time, the Dutch agricultural and horticultural sector will be able to survive without income support. In the interim, CAP funding should be deployed towards encouraging adding value to supply chains and rural areas. This added value is key to escaping the squeeze in which Dutch agriculture and horticulture now finds itself. It is presently caught between the forces of international competition and high price volatility within an agrifood cluster involving completely new (global) players on the one hand, and increasingly stringent demands from society on the other. These demands concern products (food, biomass), sustainable production processes (animal welfare, genetically modified organisms (GMOs), environmental standards) and the contribution of agriculture and horticulture to sustainable rural development (wildlife, landscape, water management, climate policy).

¹ Tweede Kamer [Dutch House of Representatives] (2010). *Kabinetsreactie op de Commissiemededeling over het Gemeenschappelijk Landbouwbeleid 2014-2020* [Government reaction to the European Commission's Communication on the Common Agricultural Policy]. Vergaderjaar 2020-2011, 28625, nr. 108; Eerste Kamer [Senate of the Dutch Parliament] (2011). *Toekomst Gemeenschappelijk Landbouwbeleid* [Future Common Agricultural Policy]. Vergaderjaar 2010-2011, 28625, A; Tweede Kamer (2011). *Beantwoording Commissievragen over het Gemeenschappelijk Landbouwbeleid* [Response to Commission questions regarding CAP]. Vergaderjaar 2010-2011, 28625, nr. 117.

Dutch agriculture and horticulture can be a frontrunner in Europe in creating new added value. In order to do this, the councils feel that the Netherlands will need to have the courage to take strategic decisions to strengthen the position of the Dutch agrifood cluster as a whole. Success will depend less on the CAP and more on the completing, deepening and making full use of the Single European Market, the strengthening of the Economic and Monetary Union, and social, economic and territorial cohesion within Europe.

The councils feel that the main focus in the negotiations should not be on reducing the net contribution to the EU budget² but on the development path of the Dutch agrifood cluster in general, and Dutch agriculture and horticulture in particular.

This advice begins with a brief analysis of the importance of the Dutch agrifood cluster and the role of governments in this cluster. As a consequence of this analysis, the councils recommend setting the transformation in motion as soon as possible, in part by initiating experiments, and not waiting for new EU legislation.

Dutch agrifood cluster: strengthen top position

The Dutch agrifood cluster occupies a top position in the world thanks to its unique geographical and institutional advantages, such as its river delta location, sea harbours, fertile soil, early urban development, long history of efficient administration (water boards, trade relations, co-ops), international outlook and pioneering mentality. In the Netherlands, 73,000 businesses are specialised in agriculture, horticulture and livestock, which, together with the processors and suppliers that depend on them, provide jobs to 685,000 people. The total agrifood cluster delivers an added value of € 50 billion to the Dutch economy, which is 10% of the country's GDP. The contribution to employment is also about 10%, indicating at least average wage rates in the cluster. The agrifood cluster also makes a substantial contribution to the economy through its strong orientation on exports, especially to other EU countries (€ 61 billion annually), its close interaction with knowledge infrastructure and technology development (e.g. Wageningen University & Research centre and technical universities) and its integration with sectors such as logistics, transport and mechanical engineering.³ Due to its knowledge of high-tech agricultural production in a highly urbanised river delta, under high societal pressure, the Netherlands can actively contribute towards making global food production more sustainable. Similarly, by exporting its know-how and technology, it can enhance the effectiveness of development efforts in the third world and some EU countries (especially new member states).⁴ Finally, it must not be forgotten that farmers in soil-dependent sectors (milk production, grazing, crop production and outdoor horticulture) are caretakers of 60% of the country's surface area and to a large degree determine the quality and appreciation of the Dutch landscape.

Dutch agriculture and horticulture will be best served by taking a broad perspective on the CAP. European internal market policy, strengthening of the EMU and social, economic and territorial

² Peerlings, J.H.M. & Dries, L.K.E. (2010). Meer voor minder: Het Gemeenschappelijk Landbouwbeleid [More for less: the Common Agricultural Policy]. In *Jaarboek van overheidsfinanciën 2010* [2010 Government Financial Yearbook]. The Hague: Sdu Uitgevers.

³ Silvis, H.J., de Bont, C.J.A.M., Helming, J.F.M., van Leeuwen, M.G.A., Bunte, F. & van Meijl, J.C.M. (2009). *De agrarische sector in Nederland naar 2020. Perspectieven en onzekerheden* [The agricultural sector in the Netherlands to 2020: Perspectives and uncertainties]. Den Haag: LEI Wageningen UR.

⁴ WRR (2010). *Minder pretentie, meer ambitie: ontwikkelingshulp die verschil maakt* [Less pretention, more ambition: development aid that makes a difference]. R84. The Hague: WRR.

cohesion within Europe are all vitally important for the future of Dutch agriculture and horticulture⁵ – even more important than staying on the course laid out by this government in its CAP Vision⁶ or correcting the net-contributor position of the Netherlands in the EU.⁷ Other European frameworks such as those for the environment (Natura 2000, the Nitrates Directive and the Water Framework Directive), health (of people, plants and animals), and competition policy are at least as important for the sector as the instruments of the CAP. The Dutch agrifood cluster has great development potential in the coming 10 to 15 years, provided that the sector can handle the earlier-described squeeze between the demands of global competition on one hand and those from society on the other.⁸ The challenges that emerge differ according to the scale: global, European or national.

At a global level, an efficient high-tech and sustainable food production and processing system in both quantitative and qualitative terms will be needed to feed the growing world population. By 2020, the world population is expected to have grown to 7.6 billion and to have changed its eating habits due to increased prosperity and urbanisation (more animal products, vegetables and fruit, and more processed foods). Furthermore, the importance of biomass will increase as the *bio-based economy* takes hold. Biomass use depends on a number of factors, such as the price of oil in relation to alternative energy sources, energy policy (mandatory biofuel mixing) and demands for new products (e.g. cosmetics, medicine and detergents).

Worldwide, demand for agricultural products will need to be met mainly by achieving higher production levels per hectare, increasing efficiency and less waste of food in the supply chain. In order to maintain and protect biodiversity, sustainable intensification of the primary production is needed, thus allowing the global expansion of agricultural land to be kept to a minimum. Under continued pressure within the World Trade Organization (WTO), import protection around the world is expected to be reduced further, and export support and market-disrupting internal support abolished altogether. At the same time, consumer concerns regarding the environment, labour practices and animal welfare are expected to become more important.

In Europe, food security is not a problem, with the proviso that the European Union remains dependent on the import of oilseeds, protein crops and essential resources such as phosphates and other nutrients.⁹ It is to be expected that the level of self-sufficiency of food in Europe will continue to rise due to gains in productivity and stagnating demand. Such stagnation will be caused by stabilisation and ageing of the European population on the one hand, and hitting a dietary saturation point, including animal products, on the other. At the same time, consumer demands are shifting towards quality, with sustainability and health as the biggest challenges. In addition, the quality of the natural and built environment remains a concern at the European and national levels.

⁵ Buijink, C. (2011). Pieken in Europa [Peaks in Europe]. In *ESB* 96 (4601), 6-9.

⁶ Ministry of Agriculture, Nature and Food Quality (2008). *Houtskoolschets Europees Landbouwbeleid 2020* [CAP Vision 2020]. The Hague: Ministerie van LNV.

⁷ AIV (2007). *De Financiën van de Europese Unie* [European Union Finances], No. 58. The Hague: AIV.

⁸ Silvis, H.J., de Bont, C.J.A.M., Helming, J.F.M., van Leeuwen, M.G.A., Bunte, F. & van Meijl, J.C.M. (2009). *De agrarische sector in Nederland naar 2020: Perspectieven en onzekerheden*. [The agricultural sector in the Netherlands to 2020: Perspectives and uncertainties]. Den Haag: LEI Wageningen UR; Leenstra, F. & van der Peet, G. (2009). *Technologische verkenningen agrosector* [Technological survey of agrosector], Rapport 209. Den Haag: LEI Wageningen UR.

⁹ Udo de Haes, H.A., Jansen, J.L.A., van der Weijden, W.J. & Smit, A.L. (2009). *Fosfaat - van teveel naar tekort* [Phosphate: from too much to too little] (2009). Ministry of Agriculture, Nature and Food Quality: The Hague; Smit, A.L., Bindraban, P.S., Schröder, J.J., Conijn, J.G. & van der Meer, H.G. (2009). *Phosphorus in agriculture: global resources, trends and developments, Report to the Steering Committee Technology Assessment of the Ministry of Agriculture, Nature and Food Quality*. Wageningen: Plant Research International B.V.

Europe has an extensive network of environmentally protected areas, of which a large part is managed by the agricultural and forestry sectors. These sectors can play an important role in international biodiversity policy, provided that the market and government offer the right incentives. Water and air pollution will remain a concern in Europe. Environmental legislation and eco-innovation will need to ensure that resources are used more efficiently by decoupling economic growth from resource consumption, emissions and waste.¹⁰ Finally, the EU's ambitious energy and climate policy should stimulate further innovation and technological advances in the agrifood cluster stimulating sustainable energy (solar, wind and biorefineries) and innovative livestock management to reduce greenhouse gas emissions at the farm and local level.

In the Netherlands, environmental performance has, on balance, increased. The Kyoto targets will probably be reached, but, if they are not, more emission restrictions will be needed. The economic recession has made it more difficult to strengthen urban areas by bundling urban development, promoting infill development and urban renewal.

On the other hand, the decline in biodiversity in the Netherlands has slowed but not stopped. Plants, animals and entire ecosystems that are sensitive to fragmentation and pollution are still at risk. Both pollution reduction and effective wildlife policy are needed to halt a further decline in biodiversity.

Moreover, sustainability-oriented purchase requirements of commercial chains can help protect biodiversity at source, even in countries producing agricultural products.¹¹ In conclusion, environmental quality and climate change targets can be brought closer by embedding the agrifood cluster better into the natural and built environment, both in the Netherlands and elsewhere, and strengthening the role of agriculture and horticulture as managers of land and suppliers of services (healthcare farms, 'green' and 'blue' services¹², etc.).

Agrifood cluster transformation requires another role of government

If it can harness its own potential, the Dutch agrifood cluster will continue to be important for the economy and society in the future. Most of the preconditions for this can be delivered by private initiatives; government's job is to facilitate this and provide a framework for action. The most important preconditions are:

- continued development of R&D in close cooperation with the primary sector;
- integration of legally binding environmental and land-use rules into business operations;
- continued supply chain integration and management;
- boosting the position of primary-sector enterprises in the supply chain as well as in the rural areas;
- safeguarding resources (e.g. in view of shortages of phosphates);
- making supply chains more sustainable and facilitating the use of risk management tools (for example, to address outbreaks of animal and plant diseases, extreme weather events, and short- and medium-term imbalances in the global market).

When creating new conditions for the development of the Dutch agrifood cluster, government can play a more active role by:

- promoting a stable and transparent internal market in Europe;

¹⁰ EEA (2010). *The European Environment: state and outlook 2010*. Copenhagen: EEA.

¹¹ Netherlands Environmental Assessment Agency (2010). *Balans voor de leefomgeving 2010* [State of the Natural and Built Environment 2010]. The Hague/Bilthoven: PBL.

¹² Westerink, J., Buizer, I.M. & Santiago Ramos, J. (2008). *European lessons for Green and Blue Services in The Netherlands*. Wageningen: Wageningen UR (Working paper / Governance and Strategic Planning Scenarios Module 3) .

- eradicating trade-distorting measures via the WTO (export subsidies, import tariffs, technical and other non-tariff protection);
- continued harmonisation of regulations concerning employment conditions, animal welfare, health (human, plant and animal), water management, wildlife, environment, etc.;
- maintaining and strengthening physical and knowledge infrastructure; and
- ensuring the quality of the natural and built environment.

Government's role in ensuring the optimal performance of the primary sector will no longer consist of granting income support and market protection, but establishing parameters and facilitating and stimulating the agrifood cluster as legislator, enforcer, market regulator and stimulator. Primary sector enterprises will then become completely integrated into supply chains and their respective regions.

The councils view the role of governments at the different levels of scale as follows:

International:

- more international agreements concerning trade and sustainability in the context of societal concerns (such as employment conditions, animal welfare (these agreements have yet to be made), health of humans, plants and animals, water management, wildlife, environment, intellectual property, facilitating the free market and investment ethics);
- agreements regarding the potential necessity of strategic food supplies;
- ensuring the sustainable use of resources;
- better agreements on the role of institutions (e.g. banks and insurance companies) that can have a (de)stabilising effect on markets for agricultural products;
- guaranteeing food security, particularly as regards human rights access to food in international law.

Europe:

- continued promotion of a stable and transparent internal European market;¹³
- maintenance and improvement of the position of the euro, combating inflation and promoting balanced economic development in Europe, in part by strengthening cohesion policy and the Europe 2020 strategy;
- tightening competition policy and state-aid rules;
- continued harmonisation of regulations in areas such as employment conditions, animal welfare and diseases, food safety, GMOs, water management, wildlife and environment and plant pathogens.

National:

- protection of national interests in the European arena (market regulation, harmonisation of regulations, trans-European networks);
- implementation of international and European agreements and European regulations in such a way as to link up to national policies on city/countryside, wildlife and spatial policy;
- knowledge and innovation policy for the agrifood cluster in relation to supply chains and rural areas;
- training and labour market policy for the agrifood cluster;
- supervision of food security, and the health of humans and animals;
- ensuring the quality of the built and natural environment (largely decentralised to provinces and municipalities).

¹³ Buijink, C. (2011). Pieken in Europa [Peaks in Europe]. In *ESB* 96 (4601), 6-9.

If the points above are taken seriously, this will change the significance and role of the CAP considerably. Before the Second World War, agriculture was a national matter (France, Germany and the Netherlands). Only afterwards did agriculture and food supply become a shared concern of the European Community. This responsibility has remained a high priority in Europe, but has undergone fundamental changes.

According to the councils, the following points should characterise the new CAP:

- minimal market regulation within the European open market, with a possible safety net for unacceptable price risks (to supplement private-sector sources);
- guaranteeing the sustainable use of natural resources;
- phasing-out of existing first pillar subsidies, temporarily replaced by targeted payments for experiments and pilot projects in a transition phase (see text boxes below);
- stimulation of innovation and competitiveness, both in the areas of crop production and ecological services at market-level prices, and by combining objectives;
- specific policy for areas with natural handicaps (to be eventually administered at national level);
- all payments in conformity with WTO rules.

Advice to the government and parliament on the new CAP

In the upcoming CAP negotiations, the government should bear in mind the desired transformation of the Dutch agrifood cluster over the next ten to fifteen years. This timeframe is more than the upcoming Multiannual Financial Framework of seven years or two consecutive five-year periods. The aim of the negotiations is a Dutch agrifood cluster with a high-tech and sustainable character that, through its knowledge, technology and innovation, makes a real contribution to global food supply. It is a cluster that takes full advantage of a completed internal EU market and a strong euro, and contributes to social, economic and territorial cohesion in Europe. Such a well-developed cluster is moreover embedded in high-quality surroundings where healthy urban/rural relations express themselves as modern peri-metropolitan agriculture.

The road to such an agrifood cluster must be both pragmatic and realistic. Securing the position of Dutch agrifood in European and international relations will not only benefit Dutch society and the economy, it will bring European objectives as formulated in the Europe 2020 strategy closer into view: smart, sustainable and inclusive economic growth in which different segments of society and entrepreneurs are included and not excluded.

Smart and flexible negotiation strategies

The councils advise the government and parliament not to act just on principle, but to remain pragmatic and realistic as well. In other words, they should make the European political climate receptive to the transformation by sticking to the policy statement of the present government along one or other of two 'Plans':

The first and long-term Plan A is to stick to the standpoint taken by the previous government and the 'CAP Reform and Public Services of Agriculture' document written by the Social and Economic Council (SER) on long-term perspectives for the CAP. The essence of this approach is that Dutch and European agriculture and horticulture should become independent of subsidies, CAP or otherwise, in the long term. Such subsidies do not enhance innovation and the competitiveness of the sector, but usually lead to higher land prices and rents (or quota values in quota systems).

Transforming this system will require clear and transparent 'rules of the game', as outlined in the SER's advice. At present, there is little support in the EU for Plan A. The current CAP reforms are taking place within the context of a 27-member state EU with a more powerful European Parliament. Unstable markets, price volatility, and the precarious financial condition of many farmers have created a hostile environment for any calls for liberalisation and reducing income support. This opposition is understandable, and reaches far beyond those directly involved in agriculture and horticulture in European society.

A more pragmatic approach, Plan B, would be more realistic in the short term. This approach consists of concentrating efforts in a pragmatic way in the CAP negotiations when arguing for the necessary means to free the agricultural and horticultural sectors from their present condition and accelerate the transformation towards higher value added in supply chains and rural areas. The CAP reforms could be used to prepare the agrifood cluster for a more liberalised market (the aim of Plan A) by concentrating efforts on smart, sustainable and inclusive economic growth (the Europe 2020 strategy). The CAP currently comprises two pillars. The first consists of income support to farmers and price mechanisms. The second concerns rural development along four axes: 1) promoting competitiveness, 2) environmental improvement, 3) improvement of quality of life in rural areas, and 4) local initiatives and diversification of rural economies. The councils feel that the first and second pillars should be redirected towards the Europe 2020 strategy in a pragmatic manner: 'if it doesn't work one way, try another'. Specifically, government should not shrink from taking full advantage of CAP funding, and work towards enhancing innovation and sustainability by focussing on smart and clean measures in the sectors still dependent on income support. This pragmatic approach does not take an overtly national point of view, nor concern itself with the net contributor status. It is about making a strategic decision to strengthen the agrifood cluster and its related industries in both supply chains and rural areas. This approach envisages spin-offs for the Dutch economy and society: in the long term, the sector can meet the challenges of global food supply, promote social, economic and territorial cohesion in Europe and cultivate a healthy relationship between city and countryside in the Netherlands.

Abandon the historical model

The current system of subsidies compensates farmers for price reductions that took place almost 20 years ago, using reference data that is also 10-20 years old. This system, decided in 2003, does not compensate on the basis of specific crop and livestock production, but on previously received subsidies per hectare (grain, oilseeds) or per head (cattle, sheep). In some sectors (e.g. starch potatoes, calves, flax and hemp), this link is still permitted until 2012.

The EU attaches conditions to the receipt of direct payments such as adhering to European regulations (cross-compliance) and keeping the land in good agricultural and environmental condition. Nevertheless, even when the current system was being introduced, it was clear that the historical references would ultimately be impossible to explain to the outside world.¹⁴ At first glance, converting existing eligibilities into an equivalent hectare-based subsidy per region (the regional or flat-rate model), as now being proposed by the European Commission, seems more just. A practical objection to this is that the regional model will lead to a redistribution of resources such that sectors that had never or seldom been eligible for subsidies before (for example seed and consumption potatoes, pigs and poultry, horticulture), and had therefore been able to fend for themselves in the marketplace, suddenly gain support. In the Netherlands 20 % of the farmers are

¹⁴ Tweede Kamer [Dutch House of Representatives] (2004). *Landbouw en Visserijraad. Brief minister over hervorming Gemeenschappelijk Landbouwbeleid (GLB)* [Implementation of the reformed CAP in the Netherlands]. Vergaderjaar 2003-2004, 21 5011-32, nr. 73.

independent of CAP subsidies¹⁵. On a more fundamental level, this model implicitly assumes that each hectare of agricultural land in a given region has the same social value. It also assumes that this value should, at least in part, receive public financing. It is very doubtful if these assumptions are true. As yet, the councils recommend against shifting from the historical to the regional model. They argue that direct payments should not be calculated on a per-hectare basis, but should be targeted to specific objectives.

A case for targeted subsidies

In the event that CAP payments are continued due to current political realities in Brussels, the councils agree with the government's standpoint to replace current historical payments by targeted ones instead of a flat rate. These should have a temporary character and be directed at three objectives:

- making product development and production processes on farms and within agricultural supply chains more innovative, competitive and sustainable. This should be aimed particularly at sectors and enterprises now heavily dependent on current subsidies because this is where transformative capital is needed to increase income potential;
- other improvements in business operations and environmental upkeep that are in the public interest (e.g. linked to ground, land management and animal welfare);
- possible stimulation of risk management tools used in the private sector for price and income fluctuations and other calamities (e.g. extreme weather, and plant and animal diseases).

Box 1: Sustainable livestock for an attractive landscape

Main message: 'Top-up' for grazing and use of subsidies from the first pillar of the CAP for the better health, welfare and longevity of cows and for bringing about an attractive landscape with cows in the pasture and with attractive and sustainable livestock housing.

Dairy cows are the heart of the milk supply chain and their welfare is essential for making it more sustainable. Housing and grazing are both important parts of this, and the milk sector is working towards sustainable buildings that meet the specific needs of cows. This principle also applies to grazing. In addition, grazing cows make the milk sector – literally – visible to consumers.

Improving the natural conditions of dairy cows will help them lead longer lives. Since 2009, all livestock holders in the Netherlands can apply for national subsidies for investments in sustainable livestock systems. This subsidy was incorporated into the national application of CAP first pillar in 2010. Livestock farmers are eligible if investments in animal welfare exceed the legal minimum and if the new or adapted livestock housing is 'innovative'. What is still missing from the CAP are incentives for 'cows in the meadow' and landscape design for buildings, etc. The post-2013 CAP can enable this by introducing a temporary 'top-up' for grazing and sustainable livestock systems. Veal farmers and other intensive livestock systems could also become eligible for similar temporary 'top-ups' for improving sustainability and animal welfare.

In order to effectively bring about the transformation to a desirable (and in the long term necessary) situation, i.e. one without direct governmental support, farmers should be allowed to be compensated temporarily for reduced payments by making extra efforts towards one or more of the objectives described above. This will also facilitate and stimulate adjustments to a more liberalised market. These targeted payments should be made a distinctive part of the first pillar (i.e. "greening" that pillar). In this way, they will directly influence the decision-making of individual farmers and become directly linked to conditions pertaining to those farmers. Directly linking payments to requirements that stimulate the desired transformation and 'greening' will have a spin-off effect in the supply chain and/or social environment. This type of compulsory, direct, and targeted payment cannot be attained via the second pillar (rural development). The

¹⁵ Berkhout, P. & van Bruchem, C. (eds.) (2010). *Landbouw-Economisch Bericht 2010*. Den Haag: LEI Wageningen UR.

non-discretionary status of the first pillar means that all recipients become part of the movement. It should be made clear that all first pillar payments are temporary and that European agriculture should prepare itself for a liberalised market and phasing-out of income support altogether (see previous analysis).

Box 2: Innovative arable farming for a new regional perspective

Main message: Investments in innovations in the production and processing of starch potatoes for food and biochemistry offer new opportunities in the Veenkoloniën, a rural area in the north-eastern part of the country. Targeted investments in new, resilient and sustainable crop varieties and measures to improve the fertility and biodiversity of the soil are conducive to business operations, carbon sequestration (climate policy) and biodiversity improvement, and thus offer a new perspective for the region.

Furthermore, it is possible to develop new arable breeds delivering substantially more high-value products from sugar beet as well as starch potatoes. Improved storage facilities on the farm give more possibilities for risk management and flexibility in the management of processing in the chain. Moreover, postponed harvesting of sugar beets in the autumn gives a higher degree of extractable sugar per beet.

Plants such as the starch potato and sugar beet offer a sustainable alternative to fossil fuel raw material such as oil. Starch potatoes not only contain substances such as starch and protein that can be used in specialised food products and animal feed, but are being increasingly used in the petrochemical industry for products such as biodegradable plastic, lysine and itaconic acid. In the petrochemical industry, itaconic acid is used as a 'green' substitute for acrylic acid and methacrylic acid. The Wageningen University & Research Centre has developed transgenic starch potatoes that produce 15 times as much lysine as normal potatoes. In fact, the itaconic acid level is so high that just the Dutch cultivation area of starch potatoes is enough to meet current worldwide demand. CAP subsidies from the first pillar could be used to develop other advanced applications for starch potatoes.

By adapting its crop rotation plan, the arable farming sector in general can, as part of the greening of the first pillar, strengthen biodiversity and increase soil fertility. Biodiversity also positively contributes to agritourism and recreation. Second-pillar subsidies can also offer new opportunities for agritourism and recreation.

Link rural policy to economic, social and territorial cohesion

The councils feel that the relationship should be strengthened between rural development policy in the second pillar of the CAP and cohesion policy. Cohesion policy presents opportunities for more structural measures to facilitate and intensify the transformation of the agrifood cluster. Better use can be made, for instance, of the links between the developments in this cluster and those in other rural and regional developments, in Trans-European Networks, in ICT and logistics, in education and in the labour market. This includes also compensation for ecological services. Moreover, regions and supply chains themselves are more explicitly addressed in the second pillar. The councils recommend giving them as much freedom as possible when administering second-pillar funding, with due regard to the objectives of cohesion policy and naturally within the European financial frameworks to be established to this end.

Start the transformation now

The councils have observed that, in various documents, the Dutch government has stressed the necessity of a policy shift in the CAP, but up to now has under-utilised available funding, e.g. national envelopes. This is not conducive to the desired transformation, and moreover damages the credibility of the position to be taken in the negotiations. The councils recommend government and parliament to make use as swiftly and vigorously as possible of the national space now already

being offered in the first pillar up to 2014 to make the transition described above.¹⁶ Consequently, the Dutch government should argue that the following steps be taken towards CAP reform:

1. Up to 2014

Make more strategic use of existing national policy options within the first pillar (in The Netherlands with a budget of € 170 million annually) by redirecting single payments towards:

- innovation, competitiveness and greening of product development and production processes on farms and within agricultural supply chains;
- stimulating the use of risk management tools proposed and financed by the private sector to mitigate price and income fluctuations and other calamities (e.g. extreme weather and plant and animal diseases);
- other public goods and services in particular areas (e.g. linked to land management).

2. 2014-2020

Phased transition policy towards further reductions in single payments. Transparency regarding goals and safeguarding public interests (and taking heed of private interests) during the transition phase and afterwards.

Targeted use of phasing-out funds for:

- innovation, competitiveness, mitigation of risks and 'greening' of product development and production processes in primary sector companies and within the agricultural supply chain (temporarily during phasing-out);
- other public goods and services;
- supplementary policy in particular areas (making every effort to create niche markets for regional products).

3. 2020 and beyond

Further liberalisation of the CAP by eliminating traditional price and income support, strengthening the internal market, and safeguarding public interests regarding:

- global food supply (shortages and justice);
- a stable and transparent internal market (economy, ecology, equity);
- the quality of the natural and built environment.

Find smart linkages and alliances

In the past few years, the Dutch government has drawn up attractive outlooks and visions of CAP's future which, when it came down to translating these into concrete policy measures, encountered major obstacles at a national level. In fact, while other countries were making reforms, little progress was being made in the Netherlands. This reduces the credibility of the Dutch position in relation to the European Union and other member states. It is also the reason why the councils recommend using a pragmatic approach to define the Dutch position on the future CAP and build alliances with relevant parties within and outside the agrifood cluster. This begins by exploring opportunities, as discussed above, to redirect single payments towards other objectives.

In addition, the common market organisation (CMO) for fruit and vegetables can be used more effectively for contributing towards the envisioned transformation.

¹⁶ The first pillar allows member states to reshuffle funds: 10% for environmentally friendly agriculture, animal welfare, quality agriculture and insurance (Art. 68 of Regulation (EC) 73/2009 of the Council). Originally, another 10% could be reallocated for specific areas (Art. 45/46), but this is no longer the case.

Box 3: Businesses and biodiversity in natural surroundings

Main message: functional agrobiodiversity is an important instrument in the business strategy of agriculture and horticulture. A regional approach – that which transcends the individual farm – will create conditions for sustainable business operations in a natural setting.

Socially responsible business practice should become a guiding principle of Dutch and European agricultural policy. Still, it is not clear how the agricultural sector can incorporate this principle in a way that is economically interesting to farmers. Working with biodiversity presents farmers with opportunities for attaining a sustainable business operation, one that does less damage to the environment and animal welfare while still making good business sense. Making biodiversity a business opportunity – sometimes called agrobiodiversity – presents a fundamentally different vision for agricultural enterprises and, for this reason, cuts to the heart of operations. Agrobiodiversity is about agriculture that is intelligently incorporated in and adjusted to the surroundings while making use of these surroundings, sometimes with modern technology (e.g. precision agriculture). The result is an enterprise that is less dependent on pesticides, that employs natural enemies in cases of epidemics and diseases, and that enhances the fertility of the soil by natural means which also strengthen the natural environment.

Part of the biodiversity on a farm originates from outside the premises. Bees, which are essential for pollination and thus business operations, move freely within and outside the farm. Similarly, farm activities influence the biodiversity of its environs. Both rural wildlife organisations and provincial governments play a pivotal role in area-based initiatives promoting functional agrobiodiversity. Subsidies from the first and second pillars of the CAP can be used to support innovations and area-based initiatives. The first pillar offers opportunities for mandatory greening of field edges, green links between fields, wildlife-friendly banks and extended crop rotation. These measures then comprise the basis for funding more specific ecological services from the second pillar.

In order to influence EU policy, the Netherlands will need to become much more proactive in forging alliances based on its position in the supply chains and the various rural areas. It should furthermore facilitate these alliances while giving them a wide scope for action, as their success depends in part on their ability to develop appealing pilot projects and experiments. In addition, the Netherlands needs to learn to use EU funding better in area-based developments and to link these to more generic structural funds from regional policy.

Do not shun co-financing

The councils advise the government and parliament to press for co-financing by national or regional authorities of not only the second pillar but also the first pillar. Moreover, the councils would welcome the option that both pillars also be co-financed by private organisations, commercial or voluntary. Together, this will increase responsibility and serve to intensify the desired transformation of the agrifood cluster. It is preferable to link every targeted measure to different social goals. This counts for both pillars.

Box 4: Renewable energy can kill several birds with one stone

Main message: Stimulate sustainable energy using subsidies for the replacement of asbestos-containing roofing with solar panels and for the production of new-generation fertilisers using animal waste products.

The agricultural sector plays an important part in achieving sustainable energy production in the Netherlands (wind, solar and biomass). Government can support this by stimulating the generation and use of sustainable energy on farms, by enabling the use of one's own resources and providing room for innovation. Solar, wind and biomass provide many opportunities for local power generation. The installation of solar panels in the agricultural sector can accompany the replacement of asbestos-containing roofing, something that should also lower health risks in rural areas. Another opportunity relates to investments in reprocessing slurry into new-generation fertilisers that can replace artificially manufactured fertilisers, which take a lot of energy to produce. In this way, government can kill several birds with one stone when it uses CAP funding for sustainable energy. Solar panels and biorefineries could be funded with subsidies from the first pillar.

Simplification of CAP

This is the first reform of CAP in the European Union of 27 member states, and the first time that the Council of Agriculture and Fisheries and the European Parliament take a decision together on a CAP reform package. The new CAP needs to take into account the increased diversity of agricultural enterprises operating within supply chains and regions: from semi-subsistence farming to high-tech production and full supply chain integration within Europe. Dealing with this diversity should not be allowed to lead to a more complex set of CAP rules and exceptions. On the contrary, a far-reaching simplification is preferable and necessary. The councils recommend that the Netherlands go for a strongly simplified European CAP system. Transparent and simple European CAP frameworks should create more room for national implementations in line with the specific development paths of enterprises, chains and regions different for each member state.

However, system simplification may not lead to for example one uniform European system of basic area payments. Basic area payments do not clearly justify the large amount of public spending that is involved as the linkage to public values or specific objectives is vague.

Reduction of the administrative burden

In relation to the above, the councils also wish to address the administrative burden of the new CAP regulations. As EU payments are handled by national authorities, the administrative burden of the system – application controls, payments and controls on eligibility – is mainly a matter for the member states. The councils endorse the aim of the government to reduce the administrative burden through simplification of regulations.

Simplified control system necessary

In this context, the councils are fully aware of the fact that any system for spending public money inevitably leads to the need to control. All payment systems have their own weaknesses and risks of fraud. This is one of the reasons why the councils advocate a *temporary* system of payments for concrete achievements that can be completed before the application for support is submitted, or that can be easily controlled in retrospect through simple methods such as satellite photographs. If the funds in the first pillar of the CAP are used in a smart way for targeted payments, as described in this advice, it is possible to use simple controllable criteria in such a way that the administrative burden will be reduced to a minimum. Payments for investments which are less profitable in the short term – for example sustainable livestock housing, attractively located in the landscape, or decentralized energy supply sources – are relatively simple to control as the measures are visible and/or lastingly demonstrable.

Furthermore, the councils recommend letting the sector come up with their own proposals for accountable and controllable systems for the targeted payments as described in this advice. In this way, the CAP payments can really be used more effectively, more innovative and with less administrative burden.

In conclusion

In this advice, the councils have repeatedly emphasised that the common European market and the enormous national and international economic and societal challenges are much more important for the Dutch agrifood cluster than direct income support from the CAP. The councils feel

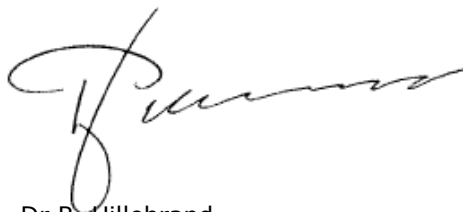
that, in time, the Dutch agrifood cluster can survive and prosper without income support, provided that the proposed transformation is put into place as quickly as possible. Good interim policy will allow the incomes of those working in the cluster to be secured, even in the long term.

Yours sincerely,

on behalf of the Councils for the Environment and Infrastructure,



Mr G.J. Jansen.
Chair of the Council for Transport,
Public Works and Water Management



Dr R. Hillebrand,
General secretary