



Will the grass be greener on the other side of 2017?

March 2017

2017 started with the reform of the Common Agricultural Policy as policymakers seek to finalise a number of regulations affecting the environmental impact of agriculture. Will these measures be enough to address such persisting challenges as climate change and shrinking farmer revenues, in light of often divergent views among the European Parliament, Member States and the European Commission?

The agrichemicals team at FTI Consulting Brussels offers you a step-by-step guide to the most important likely developments of 2017.

CAP: THE BIG OVERHAUL

After years of deliberations on the reform of the fifty-five-year-old Common Agricultural Policy (CAP), European Commissioner for Agriculture and Rural Development Phil Hogan has formally launched the biggest initiative of his mandate – modernisation and simplification of CAP post 2020. The reform will aim to respond to demands of farmers and NGOs alike, as well as addressing global economic and environmental issues including market uncertainty, the EU’s international environmental and climate commitments, and – by the

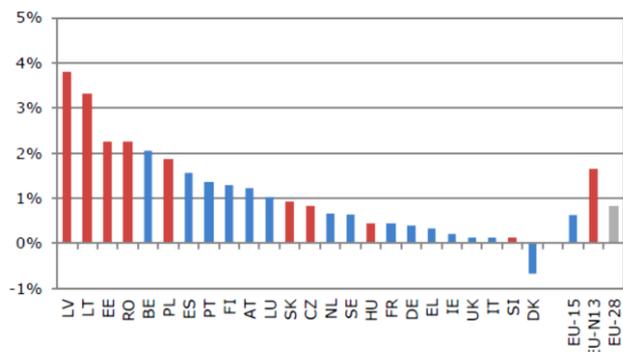
Commission’s own admission – a refocusing on bilateral rather than multilateral trade deals. During a Council meeting agricultural ministers confirmed six priorities of the reform, including building resilience via investment in research, responding to environmental challenges, and maintaining market orientation by finding the right balance between imports and protecting sensitive agricultural sectors and high standards.

The main challenge will be to decide where farm subsidies should go in order to deliver jobs and growth in rural areas, address environmental and climate challenges, and ultimately contribute to the UN Sustainable Development Goals. Brexit will further complicate the task, as the UK is a major CAP donor, providing €10bn in direct contributions. Such a high-profile and contentious policy area that consumes the lion’s share of the EU’s budget is going to generate a lot of interest, and the Commission will have its work cut out to quickly analyse the thousands of expected answers to its public consultation if it is to meet its own deadlines of issuing a Communication on the direction of CAP reform in the last quarter of this year, and a policy proposal in 2018.

There are still many questions over whether the reform will actually succeed in making agriculture greener while at the same time improving farming incomes. Some say that direct payments should be linked to the adoption of environmentally- and climate-friendly practices, such as banning the use of pesticides in 'ecological focus areas', or even limiting methane emissions. Others, that most of the money should go to supporting the uptake of digital agriculture – although this would require universal high-speed broadband coverage in rural areas, an absence frequently bemoaned by European farmers and technology providers alike. Another headache will be agreeing on the structure of direct payments and whether they should be limited for larger agricultural enterprises.

If greening efforts result in declining farmer profit margins this will decrease their ability to invest in advanced agriculture inputs. So if the twin goals of better environmental husbandry and better-off farmers are to be achieved, a reformed CAP will have to incentivise farmers to take advantage of new technologies that can bring significant environmental benefits and improve productivity.

Graph 15 Average annual TFP growth in EU Member States between 2005 and 2015²⁷



Total Factor Productivity (TFP) measures agricultural output per unit of input. EU productivity is 0.8% which is well below the 1.8% rate needed to achieve global food security by 2050.¹

MITIGATING CLIMATE CHANGE

The Effort Sharing Regulation (ESR) is the Commission’s flagship legislation aimed at addressing emissions for the 2021-2030 period from sectors not covered by the EU’s Emissions Trading System (ETS) – namely agriculture, waste, transport and buildings, which together account for about 60% of the EU’s total emissions. The ESR and the snappily named proposal on land use, land-use change and forestry (LULUCF) regulation are the two major legislative vehicles to regulate climate change specifically in agriculture and land-use sectors.

The ESR provides two new flexibility mechanisms: one consists of accessing allowances from the ETS and the other of accessing credits from the land-use sector. Member States will be allowed to use up to 280m tonnes of CO₂ as credits generated in the LULUCF sector to meet their ESR targets. Environmental NGOs complain that this will discourage implementation of climate-friendly farming practices, but farmers argue that they are already implementing a number of environmentally-sustainable measures, like precision farming and reduced tillage.

While the Maltese Presidency hopes to reach a general approach on ESR and LULUCF by the Energy Council on 19 June 2017, we can already see that the battle lines are being drawn and the ESR’s birth won’t be without pain and complications. The ESR proposal is currently being discussed in the European Parliament (EP), and some MEPs and environmental NGOs protest that the 280m figure is too high. A recent EP scientific report argues that the high degree of proposed flexibility on both files would result in a lack of ambitious mitigating measures by Member States.² Those countries with large agricultural sectors would like to see more flexibility for emissions under ESR, arguing that agriculture has a smaller

mitigating potential compared to other sectors. There are those who claim that agriculture only plays a minor role – agriculture accounts for about 10% of all EU emissions – and that the big fight will be in the transport and building sectors, so the specific debate around flexibility may be drowned out by those players, possibly making way for back-room deals.

Ultimately, it will be up to Member States to set up a framework for mitigating the impact of agriculture. It will be important that farmers are incentivised to embrace and leverage all available technologies if ambitious targets are set. The Food and Agriculture Organisation estimates that livestock greenhouse gas emissions could be cut by some 30% if all farmers adopted all emission-reducing technologies and practices available today.³

TURNING WASTE TO FERTILISERS

A Commission proposal (March 2016) proposes to extend Single Market access to fertilisers from organic sources, such as food waste, manure, and other renewable sources, linking fertilisers with circular economy objectives. Another objective is to lessen the EU’s dependency on imported phosphates, a major component of mineral fertilisers. While the expansion of the proposal to cover all fertiliser groups is broadly welcomed by stakeholders, farmers and the fertiliser industry are worried that the inclusion of proposed limits on cadmium in phosphate fertilisers might increase production costs. The EP Committees responsible for the file – Internal Market and Consumer Protection (IMCO) and Environment, Public Health and Food Safety (ENVI) – both supported the scrapping of the proposed 40mg/kg limit for cadmium. The final report by the leading IMCO is expected this summer.

PLANT PROTECTION

Over the past couple of years there has been much procrastination from regulators on updating extant rules on plant-protection products (PPPs – or pesticides in common parlance) and making them fit for purpose. 2017 is expected to see some (slow) progress again in this area. On the agenda are a review of the two governing pesticide regulations 1107/2009 (PPPs) and 396/2005 (Maximum Residue Levels).

The aim of the PPP ex-post evaluations is to “make EU law fit for purpose, achieving its objectives at minimum cost and burden for citizens, businesses and public administrations”. Stakeholders won’t be shy in sharing their opinions on pesticides in general, and critical concepts of cut-off criteria and candidates for substitution will likely again be topical battlegrounds for stakeholders on both sides of the debate. The Commission has put forward a cautious timeline, with a target completion date of November 2018.

Will this evaluation contribute significantly to greener agriculture? Probably not, but if done right it could provide farmers with more options of innovative inputs for their toolbox. SMEs, no longer put off by long regulatory procedures, would be able to invest in niche products.

Speaking of niche products, biological pesticides, or biologicals (plant protection products made from natural substances), have been around for a number of years, but have yet to make their breakthrough. They face authorisation problems in Member

¹ EU Agricultural Markets Briefs. *Productivity in EU agriculture - slowly but steadily growing* (December 2016)
² EP Director-General for Internal Policies. *Research for AGRI Committee – the consequences of climate change for EU agriculture. Follow-up to the COP21* (February 2017)

³ FAO. *Tackling climate change through livestock*

States due to lower efficacy than conventional pesticides. In a resolution adopted in mid-February MEPs urged the Commission to act more quickly on classifying them as “low-risk” pesticides, which would afford them speedy approval. As long as producers do not invest in tackling the efficacy question and promoting the benefits of biologicals, Member States will be reluctant to adopt the Commission’s proposed changes expected in March.

COMITOLGY OVERHAUL

Having failed to reach timely agreement both on the re-approval of Glyphosate and on the proposal to allow Member States ban the use of GMOs on their territory, Juncker has pledged to change the comitology procedure under which GMO and pesticide approvals are given in the EU, pushing the final decision onto Member States’ policymakers so that they can no longer blame ‘Brussels’ for their indecision.

Such a move would clearly politicise the process. Currently it is technical experts who vote on these highly-scientific matters, but this move would make national politicians responsible. The proposed changes also aim at reaching decisions in appeal committees more easily by excluding abstaining or absent country representatives from vote calculations. This has become a real issue, because while ‘no-opinion’ votes in appeal committee on GMOs have become the norm, the Commission has rarely fulfilled its duty to take a final decision when the appeal committee fails to do so. If the decision-making responsibility lands squarely back in the Member States’ court, this may well make decision-making more decisive, but it will also ensure that such decisions are taken based more on political and societal preferences rather than based on science. Commissioner Andriukaitis has himself bemoaned how many people are more convinced by “emotional, one-sided campaigns conducted via social media” than by scientific assessments.

DIGITAL AGRICULTURE

While we have already covered in detail the importance of digital agriculture in another [snapshot](#), we would however be remiss if we did not add a short paragraph on the digitisation of farming and its impact on the greening of the sector. GPS-guided nozzles that greatly improve precision spraying and reduce overlap and inputs are already a reality. Weed-eliminating robots could be the next big thing, which would reduce resource use even further. But widespread adoption digital services in farming will hinge on working out what happens to – and who owns – the data collected, a question on which little progress has been made. Digital farming has certainly seen slower uptake in Europe than in the US for example, and it remains to be seen whether European agriculture will fall behind other parts of the globe, not only missing out on making the sector greener, but also competitive. Proactive measures are needed to encourage innovation. Budget allocation alone won’t butter many parsnips, and other policies will be needed to incentivise digital adoption by farmers. As mentioned earlier, CAP could well provide the right platform in this regard.



How can we inspire confidence in carefully and meticulously considered scientific assessments when many people are more likely to pay attention to emotional, one-sided campaigns conducted via social media?



Vytienis Andriukaitis, Commissioner for Health and Food Safety

ORGANIC

Recent figures in certain markets suggest that there has been a considerable upswing in consumer spending on organic produce, following a substantial fall-off during the depths of the economic crisis. This comes at an opportune time, as the sector has received further fillip from the Maltese Council Presidency’s proposed new text for organic agriculture reform. Last year’s trilogue discussions were deadlocked over critical issues such as pesticide residue thresholds in organic produce and other derogations as the use of non-organic seeds when organics are not available. The Maltese are proposing giving flexibility to Member States to deal with pesticide residues on a national level – another case of the baton being handed back to the national level. Watering down the proposal is intended to ease its passage, but it would be naïve not to anticipate criticism of the proposed measures from the EP and those Member States that wanted stricter harmonised rules following discussions in the Council on 8 March.

FARMER INCOMES

The incomes of certain farmers have become more uncertain due to the vagaries of milk market and the scrapping of the sugar quota in September 2017. Hogan has indicated that he will consider policies to tackle unfair trading practices (UTPs) and strengthen farmers’ position within the food supply chain. A report by the Agrimarkets Taskforce has recommended introducing EU framework legislation for a harmonised baseline of prohibited UTPs in Member States.⁴ Given the overwhelming political support of the Commission, the Council and the EP to tackle UTPs, the report will likely result in concrete policy action and become a building block of the new CAP.

A significantly reduced cap on crop-based first-generation biofuels was proposed in the new Renewables Energy Directive (RED II) at the end of 2016, almost halving the maximum share of such biofuels in the renewables mix. Designed to mollify everyone, the proposal satisfied no-one. Howls of protest emanated from the environmental lobby, most of which wants first-generation crop-based biofuels scrapped altogether. But many farmers have already invested in oilseed or sugar beet for biofuels, making use of idle arable land and revitalising rural areas. The farming lobby is, predictably, vigorously and vocally opposed to the proposed cut, arguing, amongst other things, that farmers’ livelihoods are at stake. We can rest assured that this will be a major topic of debate throughout 2017.

⁴ Agricultural Markets Task Force. [Improving Market Outcomes – Enhancing the Position of Farmers in the Supply Chain](#) (2016)

WILL THE GRASS BE GREENER?

What is unambiguous is lawmakers' intention that European agriculture be greener, but at the moment we are working from hypotheticals, as many of the proposed measures are just that – mere proposals at this stage. The ultimate environmental impact of these suggested policies will only become apparent once they have been thrashed out and finalised.

Some of the new policies devolve power back to Member States for faster adoption, but the flip side of that will be less harmonisation. Others rely on broad stakeholder consultations and impact assessments that could result in longwinded processes. It is something of a mixed bag approach that suggests a certain incoherence and a lack of political willpower in Brussels.

It is clear that there will be costs associated with all of these initiatives, and it is likely that farmers will once again be on the front line. But there is not much elasticity in the sector's ability to absorb those costs which will have to be passed along the value chain, either down to consumers or back up to suppliers

in terms of fewer investments in inputs, technologies and machinery.

The winners are likely to be small and mid-sized businesses with relatively niche products that market their environmental friendliness, such as organic fertilisers or pesticides. Established players are also investing in these options, and given the large-scale restructuring of the sector through M&A deals, investment patterns may change to focus even more on these new revenue streams which also allows for the divestment of classic (and overlapping) areas of production – at least in Europe. This in turn could lead to an R&D uplift in these niche products, many of which are intended to help farmers green their fields.

There will need to be significant and clear policy support if farmers are to make the investments in the new technologies that can help the sector as a whole evolve and survive, if not indeed thrive.

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