CAP Reform, Innovation Union, and the overarching Europe 2020 Strategy: Interconnections, opportunities and future direction

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Key Findings

- This Policy Briefing explores the relationship between the overarching Europe 2020 Strategy, CAP Reform and Innovation Union, with special emphasis on potential opportunities and challenges for the agricultural sector.

- The Europe 2020 Strategy has been designed to promote smart, sustainable and inclusive growth, to drive Europe towards economic recovery. Streamlining of policy and integration of projects are central to addressing the strategy’s objectives, and are encapsulated within seven flagship initiatives.

- Cohesion policy aims to maintain solidarity throughout Europe, whilst convergence aims to reduce disparities between regions. As a result, the Multiannual Financial Framework (MFF) has been streamlined to enhance funding of projects, with implementation of the Common Strategic Framework (CSF) to co-ordinate various funds, including the European Agricultural Fund for Rural Development (EAFRD).

- To address the Strategy’s objectives, Partnership Agreements will be drawn up with each Member State detailing exactly how, where and why results will be delivered on the ground; a direct outcome of stipulated conditionality on funding for specified initiatives. Significantly, LEADER is the anticipated delivery mechanism within the framework, providing opportunities for Community-Led Local Development Initiatives, enabling local place-based strategies to be devised.

- It is likely that the CAP will maintain its two Pillar structure; however budgetary cuts are envisaged that will reduce provision to the sector by around 10% in real terms. The orientation of the reform is vested in delivering key “public goods” in the form of environmental, biodiversity, and climate action benefits. As such, “greening” and crop diversification are significant changes proposed for the coming period.

- The European Commission intends to make innovation its overarching policy objective, with integration throughout all initiatives and across all sectors. Innovation Union has been created to drive this initiative, given innovation’s increasing importance as a key driver of economic growth. This aims to promote the application of innovation in both the traditional and non-traditional sense, which is of particular relevance given the drive towards innovation in agriculture.

- As a result, an investment target of 3% of GDP towards research and innovation has been set as an objective within the Europe 2020 headline targets. Knowledge and Innovation Communities (KICs) and European Investment Partnerships (EIPs) are intended to cover the entire innovation chain in order to rapidly modernise associated sectors and markets.

- Horizon 2020 is the anticipated funding instrument, with €4.5 billion in the research and innovation budget potentially ring-fenced for research in the agri-sector. Small and Medium-sized Enterprises (SMEs) also play a key role in anticipated growth and employment across industry sectors.

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- Each flagship initiative interlinks with other flagship initiatives; streamlining aims to promote synergies between projects in order to deliver multiple objectives at the same time. As such, funding instruments have been specifically designed to enable cross-pollination and integration of ideas and themes.
- Some inconsistencies exist between proposed CAP measures, and the overall objectives of smart and sustainable growth. This highlights the need for alternative symbiotic solutions such as High Nature Farming.
- Overall, opportunities and challenges exist for the agricultural sector, with the need to continue the adoption of an entrepreneurial and innovative spirit to meet future challenges in primary industries. As a result of proposals, agricultural service industries may indeed be the biggest winners, given redirection of funding towards research activities.
- Knowledge exchange between the research community and consumers, namely farmers, is key to developing agricultural activities across Europe. Considering historic payment structures and proposed budgetary allocations, further analysis of ways to achieve effective application of such innovations is required to establish whether additional funding mechanisms are needed to translate and implement real change on the ground.
- In addition, deeper budgetary analysis surrounding regional allocations, LFA, LEADER, and the micro-economic climate present across the EU, and peripheral regions in particular, will be necessary to establish the implications of proposed financial allocations.

Introduction

At the same time that the CAP is under active discussion, Europe is facing unparalleled challenges to its economic stability. The Europe 2020 Strategy has been developed to put Europe, as a whole, on the road to sustainable economic (and social) development, with renewed emphasis on ‘innovation’ at its heart. These changes and challenges, inevitably, have implications for the future distribution of the EU budget. This briefing is an analysis of the relationships between EU approaches to CAP Reform, the Innovation Union and the Europe 2020 Strategy with special emphasis on how these relationships may pan out for future support by the EU for the agricultural sector and its associated industries and communities.

Europe 2020 Strategy

The Europe 2020 strategy has been designed for the coming decade, promoting smart, sustainable and inclusive growth within the European economy, in a bid to deliver high levels of employment, productivity and social cohesion\(^2\). Economic governance is to the fore, with actions stipulated to repair the financial sector, safeguard the stability of the Euro area, and reinforce the economic agenda with closer EU surveillance\(^3\). Within this overarching strategy, the EU has set five key objectives regarding employment, innovation, education, social inclusion, and climate and energy. In order to deliver the strategy at national level, Member States\(^4\) have adopted their own targets, to support the objectives laid out.

The strategy is encapsulated within seven flagship initiatives\(^4\). These mutually reinforcing policies are collectively integrated in three main areas, and are designed to kick start growth in the EU economy.

Smart Growth: To develop a knowledge based economy with innovation at its heart
Sustainable Growth: Resource efficiency and sustainability are centred around developing a more competitive and greener economy
Inclusive Growth: To promote inclusivity and employability, ultimately delivering economic, social and territorial cohesion.

\(^2\) For more information, see: [http://ec.europa.eu/europe2020/index_en.htm](http://ec.europa.eu/europe2020/index_en.htm)
\(^3\) For more information, see: [http://ec.europa.eu/europe2020/priorities/economic-governance/index_en.htm](http://ec.europa.eu/europe2020/priorities/economic-governance/index_en.htm)
\(^4\) For more information, see: [http://ec.europa.eu/europe2020/reaching-the-goals/flagship-initiatives/index_en.htm](http://ec.europa.eu/europe2020/reaching-the-goals/flagship-initiatives/index_en.htm)
Overall, Europe 2020 aims to streamline policy and regulation, reducing bureaucracy. These initiatives have already streamlined many preceding policies to encourage transparency and alleviate unnecessary hurdles. However, tight budgets require carefully targeted investment at Member State level to achieve the objectives set out in the four priority areas. As a result, the Commission proposes to increase budget allocations to research and innovation, education and SME development. Solidarity is another important theme within the Strategy, with the biggest proportion of cohesion spending directed to the needs of the poorest Member States and regions.

The following 5 headline targets⁵ aim to meet the goals of the Europe 2020 Strategy:

1. Employment: 75% of 20-64 year olds to be employed
2. R&D / Innovation 3% of the EU’s GDP (public and private combined) to be invested in R&D / Innovation
3. Climate Change / Energy Greenhouse gas emissions 20% (or even 30%, if the conditions are right) lower than 1990 20% of energy from renewables 20% increase in energy efficiency
4. Education Reducing school drop-out rates below 10% At least 40% of 30-34 year olds completing third level education
5. Poverty / Social Exclusion At least 20 million fewer people in or at risk of poverty and social exclusion

It is clear that food security does not feature within the list of main targets the EU hopes to address. Consequently, issues relating to agriculture are not directly addressed within the headline indicators measuring the success of the Europe 2020 Strategy⁶. However, from a global perspective, food security and agriculture have been identified as priority sectors for EU aid in the EU new development policy "Agenda for Change"; agriculture, food security and nutrition are high on the EU's long-term development cooperation agenda, and are expected to feature prominently in the next programming phase which will cover EU development assistance during 2014-2020⁷. In relation to CAP Reform, it would appear there has been a move towards repackaging deliverables of CAP in accordance with climate action, innovation and resource efficiency, to reflect the direction of Europe 2020.

Territorial Cohesion and the Regions

Cohesion policy is very much integrated into the thinking behind the proposed Europe 2020 Strategy. Europe’s aim is to progress, but solidarity is key, with the aim to reduce economic, social and territorial disparities that exist across the regions of the EU, whilst delivering upon its proposed objectives. The Commission wish to instigate partnership contracts with each Member State, incorporating conditionality, to ensure commitment that allocated funds will be spent with the overall aim of implementing the objectives making up the Europe 2020 Strategy⁸.

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⁵ For more information, see: [http://ec.europa.eu/europe2020/reaching-the-goals/targets/index_en.htm](http://ec.europa.eu/europe2020/reaching-the-goals/targets/index_en.htm)
⁶ For more information, see: [http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators](http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators)
Convergence and the Regions

As part of Europe 2020, various regions have been designated under the following headings⁹:

- Competitiveness Regions (GDP above 90% of EU GDP)
- Transition Regions (75% - 90% of EU GDP)
- Convergence Regions (>75% of EU GDP)

These have been categorised on a GDP per capita basis based on the EU-27 average, with the creation of transition regions bridging the divide between the current phasing-out and phasing-in system.

NUTS 2 Eligibility - 2014-2020 Regional Policy (GDP 2005-2007): Regions between 75% and 100% of EU27 GDP (source: Eurostat)¹⁰

A proposal of €376 billion is planned for the 2014-2020 period with allocations as follows:

- €162.6 billion for convergence regions
- €38.9 billion for transition regions
- €53.1 billion for competitiveness regions
- €11.7 billion for territorial cooperation
- €68.7 billion for the Cohesion fund
- €926 million as an extra allocation for the outermost and sparsely populated regions
- €40 billion for the Connecting Europe facility (plus €10 billion from the Cohesion fund)

The European Social Fund’s (ESF) minimum share will be 25% of the funding allocated to cohesion policy totalling €84 billion. The European Globalisation Adjustment Fund (EGF) is another fund which can be deployed for those working in the agricultural sector whose livelihoods are affected by globalisation.

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The Commission proposes to concentrate the largest share of cohesion funding on the poorest regions and Member States, meaning competitiveness regions will continue to receive support for a limited number of priority areas, but the orientation of spending will be determined by the priorities deemed instrumental to the given region. Overall, Competitiveness and Transition regions are to allocate the majority of their budget (excluding funding from the ESF) to energy efficiency, renewable energies, SME competitiveness and innovation. Convergence regions will have more flexibility in the priorities they address with their budget, taking into account a wider range of priority areas and objectives in line with their individual development needs. It should be noted that within the contractual agreements, performance will be measured, giving rise to the suspension or, at worst, cancellation of funds, should failure in progress be found. On a positive note, 5% of the cohesion budget will be set aside to reward Member States who make progress and achieve the targets and objectives set out in the Strategy.

Overall, Member States such as the UK will be limited in spending, but perhaps strategic investment towards integrated rural projects can overcome some of the barriers such streamlined, conditional funding has put in place.

**Multiannual Financial Framework and the Common Strategic Framework**

Simplification of the instruments used within the Multiannual Financial Framework is proposed in order to improve programme delivery, with emphasis placed on parallel efforts at national level in order to deliver upon the Strategy’s objectives. A reduction in the number of programmes is envisaged, to encompass several funds within one framework, thus enabling the mainstreaming of priorities across policies. Its aim is to promote synergies between funds, and promote the execution of different objectives at once. In particular, the formation of the Common Strategic Framework will now coordinate:

- The European Regional Development Fund (ERDF)
- The European Social Fund (ESF)
- The Cohesion Fund (CF)
- The European Agricultural Fund for Rural Development (EAFRD)
- The European Maritime and Fisheries Fund (EMFF)

This is designed to increase coherence between policy commitments made in the context of Europe 2020 and investment delivered at national level, with integration of funds strongly encouraged. Partnership Agreements, or Partnership Contracts, will be drawn up with each Member State detailing exactly how, where and why the results will be delivered on the ground, with flexibility towards geographical coverage; this means organisations, such as Local Enterprise Partnerships in England, will not be restricted to regional boundaries assigned to reflect various economic territories within the EU.

Significantly, the anticipated delivery mechanism is LEADER, which should provide opportunities to establish Community-Led Local Development initiatives based on the current LEADER model operated under EAFRD. This will enable regional and local action groups to design and deliver local place-based strategies and integrated investments within the parameters of the programmes from which funding is derived. Within the EAFRD, six priority areas have been targeted including knowledge transfer and innovation, the competitiveness of agriculture, management of natural resources and climate action, and the inclusive development of rural areas. It should be noted that LEADER will continue to be a compulsory element in each rural development programme, but is restricted to just 5% of the budget.

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12 For more information, see: [http://ec.europa.eu/regional_policy/sources/docoffic/working/strategic_framework/csf_part1_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/working/strategic_framework/csf_part1_en.pdf)
13 For more information, see: [http://www.bis.gov.uk/policies/economic-development/leps/](http://www.bis.gov.uk/policies/economic-development/leps/)
14 For more information, see: [http://www.bis.gov.uk/assets/biscore/economic-development/docs/p/12-642-partnership-agreement-structural-funds-consultation.pdf](http://www.bis.gov.uk/assets/biscore/economic-development/docs/p/12-642-partnership-agreement-structural-funds-consultation.pdf)
CAP Reform: Key issues and considerations

The Commission foresee the future CAP remaining as a strong common policy, maintaining its two pillar structure\textsuperscript{15}. At present, spending on the CAP accounts for around 40% of the EU budget\textsuperscript{16}. However, current proposals look to reduce that figure to 36\%\textsuperscript{17}, which is a loss of 10\% in real terms of the overall CAP budget for the agricultural industry. In addition, proposals seek to encompass a range of deliverables in relation to the environment, biodiversity and climate change, thus echoing the objectives relating to resource efficiency\textsuperscript{18}, and the need to deliver key public goods.

Current proposals

To date, current proposals are as follows:

- **Crop diversification** – if more than 3 hectares of farmland is devoted to arable, farmers are required to grow at least 3 crops, each covering more than 5\%, but none more than 70\%, of this land. However, a possible increase in the threshold from 3 to 10 hectares is being considered\textsuperscript{19}.
- **Permanent pasture** – farmers are required to maintain permanent pasture; the definition of which may include heather, depending upon the willingness of the Commission to make this amendment. Expansion of the time period that grassland is out-with the arable rotation is also under consideration, with the hope it will be extended to 8 years, rather than the proposed 5 year rotation\textsuperscript{19}.
- **Ecological focus area** – farmers are required to devote at least 7\% of land, excluding permanent pasture, to ecological purposes. Measures could include fallow land, buffer strips, and landscape features. Discussion is under way regarding the possible exemption of farmers currently participating in existing ‘farm level’ Pillar II agri-environment schemes and/or those participating in national or regional certification schemes\textsuperscript{19}.
- **Reduction in support to make payments “fairer”**
- **Member States to dedicate 5\% of direct payments to LFA**
- **Voluntary coupled support** (up to 10\% of aid) for types of farming considered important to a region for economic or social reasons
- **All historic payments to end by 1\textsuperscript{st} January 2019 when a “uniform unit value” will apply in each region**
- **Payments to active farmers only**

In order to deliver upon environmental and climate action objectives, the Commission has proposed to make 30\% of direct support conditional on “greening”, over and above the requirements of cross-compliance within current legislation; with the sector also expected to reduce emissions by around 40\% up to 2050. Pillar I will focus on equitability and greening within its overall focus to support market measures, whilst Pillar II will focus predominantly on competitiveness and innovation, climate change and the environment, encompassing rural development to reflect the specific national or regional needs of individual Member States, whilst delivering environmental public goods as part of its remit.

Type of support

Currently, payments received across Member States vary enormously. The disparities between “common” payments can be seen in the following graph released by the Scottish Government\textsuperscript{20}.

\textsuperscript{15} For more information, see: [http://ec.europa.eu/agriculture/cap-post-2013/communication/com2010-672_en.pdf](http://ec.europa.eu/agriculture/cap-post-2013/communication/com2010-672_en.pdf)
\textsuperscript{16} For more information, see: SAC Rural Policy Centre article by Douglas Bell “Why is CAP Reform so important to Scottish farmers?” (June 21, 2011) Available online at: [http://www.sac.ac.uk/ruralpolicycentre/hottopicsdiscussion/rpchottopics/capreformandscottishfarmers/](http://www.sac.ac.uk/ruralpolicycentre/hottopicsdiscussion/rpchottopics/capreformandscottishfarmers/)
\textsuperscript{17} For more information, see: SAC Rural Policy Centre article “CAP Reform and Scotland” Available online at: [http://www.sac.ac.uk/ruralpolicycentre/hottopicsdiscussion/rpchottopics/capreformscotland/](http://www.sac.ac.uk/ruralpolicycentre/hottopicsdiscussion/rpchottopics/capreformscotland/)
\textsuperscript{18} For more information, see: [http://ec.europa.eu/resource-efficient-europe/pdf/resource_efficient_europe_en.pdf](http://ec.europa.eu/resource-efficient-europe/pdf/resource_efficient_europe_en.pdf)
\textsuperscript{19} For more information, see the June 2012 edition of SAC Agribusiness News
\textsuperscript{20} For more information, see the PowerPoint presentation by David Barnes “The Common Agricultural Policy 2014-2020: a Scottish Government view” (24 Feb 2012) Available online at: [http://www.sac.ac.uk/mainrep/pdfs/davidbarnesslides.pdf](http://www.sac.ac.uk/mainrep/pdfs/davidbarnesslides.pdf)
These disparities aim to be addressed to some extent through convergence, to reduce variance in payments and promote fairer financial support. Therefore, all Member States receiving payments at a rate of 90% below the EU-27 average of €269.1 per hectare will have their payments lifted by a third towards the 90% threshold over the coming financial period, with the aim to ensure fairer treatment of farmers who are performing the same activities across the Union\(^5\). The savings made by such a move will be allotted to the budget for rural development, the size of which will vary between each Member State. In addition, support will be directed toward active farmers, with capping introduced to the level of direct payments for the largest farmers across the EU.

The graph clearly shows the range in payments across Member States; however, these figures are based on average payments, thus masking variations at Member State level. Therefore, those farming in peripheral regions could be well below Member State average. The implementation of regional strategies and streamlining aims to reduce disparities across regions, yet proposed streamlined transnational solutions do not account for the variability in farming between areas on a national level to the same extent, except for implementation of LFA. It would be interesting to determine whether LFA reflects the shortfall those farming in peripheral areas face with regard to higher input costs and reduced land capability, and the overall effect on the bottom line in comparison to other States throughout the EU. In addition, analysis of Community-Led Local Development initiatives under the LEADER model is necessary to establish whether this initiative’s aims of broader rural development has enough impact upon the needs of the agricultural sector in relation to the wider rural community; or, whether a micro analysis further reflecting, and better targeting, anomalies at farm level is required; as opposed to generic rural initiatives, where blanket regional status may well mask the true needs of the sector, and thus impede progression towards the objectives laid out. Overall, the economic crisis has impacted upon the agricultural sector and rural areas as a whole, given the sharp rise in costs of production; and implications relating to wider macroeconomic developments within the Union and internationally. The implementation of "Transition" regions may pose a significant shortfall for those areas falling into this category. In addition, re-designation of areas qualifying for LFA may also have an adverse effect on funds available. Reflecting upon the current reform, proposed budgetary allocations are as follows\(^8\):
A further allocation of €15.2 billion will be made available within the budget, specifically to fund:

- €4.5 billion: Research and innovation in relation to food security, the bio-economy and sustainable agriculture (available in the Common Strategic Framework for Research and Innovation)
- €2.2 billion: Food safety (under Heading 3)
- €2.5 billion: Food support for most deprived persons (under Heading 1)
- €3.5 billion: Crises in agriculture (a new reserve)
- (Up to) €2.5 billion: available in the European Globalisation Fund

It is presumed that Member States within differing regions will face restrictions with regard to how much can be drawn down from the budget, aligning with the emphasis placed on socio-economic development within the territorial dimension, which is integrated throughout the MFF.

**Issues arising from reformed CAP proposals**

Several issues must be analysed in relation to these proposals:

- Depending on crops grown, more machinery may be needed; is this cost effective?
- Will this move have an adverse effect on contracting businesses considering the reduction of economies of scale that smaller areas of crop promote?
- Does capping contradict calls for a modern efficient farming sector?
- Should greening be delivered through more symbiotic measures that do not hamper productivity and farm competitiveness, but heighten the integration of productivity with care of the environment through practices such as High Nature Farming?
- Will the distribution of LFA across Member States truly reflect the additional support needed in these areas, given the original disparity of direct payments from which this funding will be generated?
- What measures can the Common Strategic Framework contribute to alleviate the financial shortfalls that capping will inevitably present?

The Commission recognise that withdrawing support would have an adverse affect on both the intensity of agricultural production, and the environmental concerns of land abandonment in some areas; especially given some input costs have risen 3 to 4 fold in relation to agricultural commodity prices, thus detrimentally impacting on incomes within the primary sector of the agricultural industry. In relation to this, they also state a flat rate of direct support is not feasible, and a push towards a more equitable and balanced structure of support between Member States is required. Therefore, to reduce disparities between regions, territorial balance aims to be delivered through cohesion policy, and better targeted to those active in farming. However, it would appear proposals are not allowing farmers to increase production from land which is capable of producing more, which appears contradictory given proposed obligatory measures require farmers to “green” more of their land, making current and future challenges that agriculture must respond to increasingly difficult. Aside from the need to feed a growing population, agriculture must compete with multiple demands on land area including energy, biodiversity, and climate action such as sequestration of carbon sinks; meaning the need to drive up production per unit is required if our limited area of land is to meet the challenges facing it.

Reflecting upon the wider objectives of cohesion policy shows its aims fit well within some industry sectors, however analysis of the agricultural situation questions its relevance, given perhaps more favourable conditions for farming activity in some Member States compared to others. Climate, land capability and the weather vary massively across Europe; agricultural activity predominantly relies upon the right balance of each of these factors, meaning some regions will hold a more advantageous position in this respect, requiring deeper analysis in coming reforms regarding the possibility of a micro strategy, rather than a blanket policy. In addition, recognition has been paid to the necessity to improve functionality of the food supply chain. Historic figures show a decreasing trend in agriculture’s share within this chain from 29% in 2000 to 24% in 2005\textsuperscript{13}, highlighting that prospects will not improve for farmers if this decreasing trend continues. Yet comparatively, the food industry, wholesale and distribution sector have all increased over this same period. If anything, these trends show the vital
need for direct payments to buffer current market conditions considering farmers’ bargaining power is diminishing. Also, given agri-food exports represent 6.8% of total EU exports, both social and economic factors are at play with regard to supporting the future direction of this sector, especially considering agriculture’s primary role in supplying the raw materials needed within the food chain.

Innovation Union

The Commission intends to make innovation its overarching policy objective, as it is believed research and innovation are at the heart of prosperity and continued well-being across all Member States in the Union. Its aim is to underpin the need for smart, sustainable and inclusive growth, and has been developed alongside the flagship initiative on Industrial Policy for the Globalisation Era. Tackling major societal challenges such as climate change, energy and resource scarcity, health and ageing, demographic changes, technologies for information and communication, and the need to sustainably provide water and high quality, affordable food, through sustainable production methods, are encapsulated within this initiative. Therefore, innovation is to be applied, in its broadest sense, to both traditional and non traditional activities, through integrated projects in all initiatives and sectors. The aim is to create a strong, competitive and diversified manufacturing chain, with an emphasis placed on Small and Medium-sized Enterprises (SMEs), given their importance in creating jobs and growth within the economy.

SMEs account for more than 67% of private sector jobs, and more than 58% total turnover in the EU. Relating these figures to Pillar II of the proposed CAP, and bearing in mind synergies between policies, it will be interesting to find out if extra budgetary allocations will be available in the future, particularly for LFA designated areas, to stimulate micro-economic growth in rural areas that struggle on a national socio-economic scale. Considering the EU want to promote SME-friendly activities across the full range of EU policies and spending programmes, this synergy may very well promote diversification, particularly given changes in direct support. Given streamlining of programmes across various programmes within the EU, it should be noted that the Common Strategic Framework for Research and Innovation will be used to support research and innovation. This funding will be given to SMEs in collaboration with the Competitiveness and SMEs Programme. Coupling streamlining, with the Strategy’s objective to become more competitive, it may be easier to integrate projects and secure funding from this alternative source in future. Also, as part of the ESF, entrepreneurship and self-employment have been highlighted for support to increase the availability and accessibility of microfinance for vulnerable groups, micro-enterprises and the social economy; again suggesting the integration and attainability of funds if challenged in an enterprising and innovative fashion.

Comparative studies have shown that Europe is currently under-investing in its knowledge foundation, spending only 2% of GDP on R&D, with Japan and the USA spending around 3.45 % and 2.79% of GDP respectively. Therefore, Horizon 2020 will act as the financial instrument for fulfilling the research and innovation objectives set out in Innovation Union provided, of course, that the suggested budget is endorsed. This framework will be closely linked to perceived key sectoral policy priority areas including food security and bio-economy, energy and climate change, and health. Of great significance is the proposal to ring-fence €4.5 billion in the research and innovation budget for research on food security, the bio-economy and sustainable agriculture. Although this is still under negotiation, it is a bid to secure capital to be used for the progression of the agricultural industry, although not given directly to the farmer in cash.

The Commission recognised that financial instruments were inhibiting progression, and subsequently implemented the Multiannual Financial Framework (MFF) to give priority to sustainable growth and competitiveness. As a result, the European Institute of Innovation and Technology (EIT) has been created, providing a catalyst to stimulate the integration of the “knowledge triangle” namely education,
research and innovation, thus building upon previous aspirations to become a knowledge economy. This innovation stimulus aims to address Europe’s major societal challenges by bringing together the world’s best creative and innovative professionals from the fields of research, business and academia; its intention being to cover the entire innovation chain through Knowledge and Innovation Communities (KICs) and European Innovation Partnerships (EIPs), by pooling expertise so that critical mass can be achieved to benefit society and rapidly modernise associated sectors and markets. Greater marketability, and use of public-private partnerships should increase Europe’s attractiveness as a place to invest, whilst also promoting collaboration between public and private sectors for the sharing of knowledge. However, to reach its full potential, changes to the regulatory framework are required.

Within agriculture, the EIPs aim to “improve the supply of foodstuffs produced in a resource-efficient, productive and low-emission way through improved agricultural and food processing methods.” It recognises that global food demand will increase dramatically over the coming decades, so aims to work in harmony with the environment to promote resource efficiency, productivity, and low-emission agriculture. These partnerships will have a direct impact on resource efficiency, and specifically from the environmental arm of the Strategy, a focus will be on the efficiency of water, ecosystems and raw materials, which the agricultural industry must consider. The knowledge triangle is echoed here in a sense, as the Partnerships aim to bridge the gap between cutting edge research, and the “consumers” who can actively apply these innovations on the ground, namely farmers and advisors. It aims to translate scientific knowledge into processes and products that can be used in traditional sectors such as the agricultural industry, as well as high-tech industries which, up until now, have been most associated with innovation.

Funding for Growth

In order to achieve these overall aspirations, acquisition of finance is pivotal to its success. Currently, the private sector invests the largest percentage of capital in the development of innovations; yet compared to global partners, Europe invests in the region of €15 billion less venture capital annually in comparison to the US. Given the initiative’s target to invest 3% of GDP towards innovation, the public purse would have to increase funding by €100 billion in business R&D to achieve its aim. Venture capital is the life blood of business expansion, yet most venture capital funds in Europe are too small to provide continued support. Also, access to high risk loans is minimal, with banks unwilling to invest in knowledge-based companies due to difficulties in valuing knowledge assets such as intellectual property. The next step is to create incentives and improve regulation to increase the venture capital market. Proposals aim to source €30 venture capital for every €1 of EU funding. These innovative financial instruments have been designed to create a multiplier effect by attracting other public and private financing for projects. By implementing these new financial instruments, the Commission and the European Investment Bank (EIB) intend to absorb some of the risk, which will help lift the credit rating of projects, thus subsequently improving the acquisition of capital from various public and private entities. The Commission foresees the EIB and European Investment Fund playing a crucial role in helping with the creation of a “virtuous circle” in which funding will be leveraged through new financial instruments to promote innovation and entrepreneurship. Consideration must also be given to where capital to fund these various budgets will be sourced from. Historically, labour taxes were increased, resulting in job cuts; given one of the main targets of the Strategy is to decrease unemployment, a shift towards “greening” of taxation in relation to energy and environmental taxes has been suggested, which would help deliver other key targets, namely climate action and resource efficiency.

Knowledge Exchange

The importance of knowledge exchange within this initiative cannot, and should not, be underestimated; the role of education is pivotal in order to equip individuals with the skills required to...

25 For more information, see: http://ec.europa.eu/environment/resource_efficiency/index_en.htm
26 For more information, see the Response from the SAC Rural Policy Centre on the “Call for Evidence on Innovation in EU Agriculture” (September 2010) Available online at: http://www.sac.ac.uk/mainrep/pdfs/innovationinquiry.pdf
27 For more information, see the SAC Rural Policy Centre Policy Briefing by Jane Atterton “Innovation: the EU, UK and Scottish policy context” (August 2011) Available online at: http://www.sac.ac.uk/mainrep/pdfs/innovation.pdf
feed into innovation across sectors, and to increase mobility so that information and ideas can be disseminated across borders through initiatives such as Erasmus, and between academia and industry, through work placements for students. The Commission recognises this valuable outlet for improving knowledge exchange, yet the current economic situation, capping of HEI (higher education institute) numbers, and introduction of fees in the UK, all work to the detriment of this initiative, creating obstacles which will be challenging to overcome. The supply and demand needs of the agri-sector must be given consideration, as a reduction in young entrants leads to a chink in the knowledge exchange chain, which needs to be addressed if innovative knowledge is to flow downstream to producers in order to instigate change on the ground.

**The Relationship between Europe 2020, CAP and Innovation Union**

The main theme running throughout the Europe 2020 Strategy is collaboration, cross pollination of ideas and themes, and most importantly, streamlining of initiatives to deliver upon proposed objectives. Re-design and operation of the budget is key to promoting interconnections between projects, sectors and regions, across all flagship initiatives encapsulated under the overarching strategy. Integration for overall coherence, and streamlining for overall efficiency are the core messages, with governance residing to a great extent with the European Union, and subsequent targeted delegation of control then given to Member States in chosen policy areas.

Solidarity within the funding mechanisms has been highlighted so that closer relationships can be forged between public and private entities. It aims to create a culture of solidarity throughout Europe, utilising Cohesion Policy to steer initiatives towards addressing the overarching objectives each policy area aims to achieve. Proposals aimed to address targets laid forth within the Strategy’s objectives and can draw down funding from various components of the EU budget, in order to promote the creation of projects which will symbiotically address several objectives at once; an example includes research and innovation, which will be funded through Cohesion Policy to complement and promote synergies between projects and regions. Funding instruments aim to be innovative and deliverable in their approach to sustainability, promoting the instigation of projects which cross borders to solve problems and create solutions.

**Links between the Strategy and Flagship Initiatives**

Each flagship initiative has close links to other flagship initiatives under the Europe 2020 strategy, with climate mitigation and adaption mainstreamed throughout all major EU programmes. Both Innovation Union and CAP Reform are inter-related under some actionable objectives, innovation in agriculture in particular, and both are integrated under the Resource-Efficient Europe flagship. Through the streamlined and integrated orientation of the Strategy and its objectives, CAP has been designed to provide contributions to the flagship initiatives on “Low Carbon, Resource Efficient Europe”, “Innovation Union” and “A European Platform Against Poverty”. The financial instruments designed to implement these initiatives also contribute to, and integrate with, various facets of the complex array of deliverables expected as a result of the symbiotic structures put in place. Reflecting upon the Strategy’s headline targets, it is clear to see these themes echoing in the future direction of CAP Reform.

Notably, The Common Strategic Framework\(^{29}\) in Research and Development funded through Horizon 2020 will have close links to key sectoral priority areas of food security and the bio-economy, energy and climate change, and health. This will require harmonised, transparent research to take place across a broad range of areas. The theory behind integrating projects and finding common relationships between objectives and policy areas certainly implies more transparent and practical strategies of delivery; but in practice, it will be interesting to find whether this “streamlined” approach will run smoothly, or exacerbate the complex nature of the framework during the realisation of projects.

\(^{29}\) For more information, see: [http://ec.europa.eu/regional_policy/sources/docoffic/working/strategic_framework/csf_part2_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/working/strategic_framework/csf_part2_en.pdf)
Inconsistencies in political direction

Although recognition has been paid to a growing population and challenges of food security, it appears the environment and climate change have been given greater precedence within the objectives of the overarching strategy. Sustainable intensification, resource efficiency, and growth of the economy are the main goals Europe 2020 aims to deliver; however proposals, such as greening the CAP, appear contradictory, given the anticipated reduction in productivity, through the sacrifice of productive land to environmental measures. Cropping proposals also contradict the EU’s aims for smart specialization, given proposals surrounding diversification of crops grown, and subsequent reduction in economies of scale, which appears at odds with their flagship initiatives on “Smart and Sustainable Growth”.

The now very much reflects the perceived “public goods” EU citizens expect to see for their Euros; namely environmental, biodiversity and climate action “goods”. At present, the UK’s self sufficiency in all food types is around 59%. The complexity of our globalised commodities system, and trading of exotic foods, makes understanding of self sufficiency in the EU as a whole rather difficult; however, it is clear that contradictions persist with regard to agricultural productivity and sustainability in relation to global food demand and security, especially considering the FAO expects world food demand to increase by 70% by 2050. Decoupling of payments has had an adverse effect on stock numbers. Currently, sheep numbers are at their lowest level in Scotland, than has ever been recorded over the past 100 years, including during two World Wars. Given the EU is introducing more constraints on farmers productivity, and proposing to take land out of production through “greening”, the question remains whether proposed legislation and regulation will damage the agricultural sector and rural socio-economic areas; and whether the EU will be competitive on a global scale with regard to resource efficiency, given its lack of natural resources generally. Current proposals appear disjointed in this respect, considering globalization has changed the trajectory of food production, making global commodity markets key, and variances in supply of such valuable products open to external economic and environmental drivers. Projections of changes of agricultural production in relation to climate change should be given due consideration, as well as the turbulent social situation that can affect supply to vulnerable areas.

It is important to note continued research regarding activities such as High Nature Farming, and the symbiotic relationship this promotes with regard to the environment and productivity. Given the ongoing debate regarding costs foregone in relation to these environmental measures, perhaps reassessment of repackaging CAP under these other initiatives is required to better address the objectives, and incorporate a fairer, more practical, reform for the future, which will meet food security challenges, and provide the EU with valuable resources to bolster trade in a globalizing world.

Possible implications and challenges

The Europe 2020 Strategy, and its overarching objectives have been designed with the intention to lift Europe out of its current economic slump, but the actualisation and realisation of these goals hinge upon getting the financial framework right, and somehow attracting private equity from private sources to finance enterprise within the Union; an aspiration that will be increasingly difficult to meet, given the
varying degrees of financial hardship Member States are experiencing at present. In addition, appropriate targeting of funding towards strategic projects is needed to address societal challenges and deliver benefits to society as a whole; all with a limited budget. Streamlining is designed to simplify the instruments used to deliver these goals; yet, continued measurement of success of so many interrelated initiatives may be difficult to assess, as will appropriate allocation of funding for each project; however, appropriate utilisation of Partnership Contracts coupled with analysis of sustainable development indicators, should, in theory, help monitor progress towards the goals laid forth.

Streamlining the MFF is designed to initially promote potential funding opportunities cross-sectorally, by promoting smart integration of both public and private projects; however, analysis of the instruments proposed for such national and cross-border linkages is required, considering the complexities that competing initiatives will pose to finite sources of funding within the overall budget. Coupling these considerations with knowledge of our regional status, it is necessary to determine whether territorial allocation will impede progression because of fixed objectives the Commission have identified for the various “regions” that make up the European economic arena. Further analysis into the structure and communication channels employed to deliver these integrated projects is necessary, especially since cross pollination of themes, structures and initiatives are embedded throughout the budget to promote synergies, and deliver upon the objectives of cohesion policy.

As mentioned, the European Union will dictate how much of individual Member State budgets should be allocated to stipulated initiatives, with variances depending upon regional status. This in turn highlights control at EU level, and reduced power at Member State level for allocation of funds and subsequent flexibility in policy creation procedure, with penalties for States displaying non compliance, and under performance towards objectives. Deeper analysis into variance in allotted spending priorities and its effects on CAP in relation to overall budget priorities between the regions would be useful to establish whether competitiveness will be hampered as a result. Furthermore, particularly under Heading II, it will be interesting to find whether regional allocation will impact upon the amount the UK can secure for the CAP. Blanket regional status may serve its purpose when comparing some industry sectors, but it should not be applied with a broad brush. Differences in socio-economics between rural and urban areas in relation to prosperity and productivity are vast, and stem from the micro-economic climate present in different areas. Industry sectors may be performing similar activities but external pressures are different within regions and industry sectors; land capability, climate, logistics and cost structures have a significant impact on the agricultural sector, thus reducing margins. Examination of levels of support through Pillar II is crucial to determine whether detrimental impacts upon the sector are likely, given the UK’s current status, containing “Competitiveness” and “Transition” regions.

The relationships amongst regional status, LFA, LEADER and Partnership Contracts, and their potential impacts and opportunities for the agricultural sector and rural economy are not immediately clear. It would be useful to gauge whether further simplification will, or will not, damage some mechanisms already in place at national and regional level. Mainstreaming could potentially be regarded as an opportunity provided policies are implemented at national level in a strategic manner, promoting innovation in how funds can be harnessed for the sector’s good, but the need to get this balance right is imperative, and begs the question whether this complex integration is indeed delivering a more streamlined, simplistic system. Secondly, innovation is regarded as the catalyst to improve industrial practice across sectors; yet it is questionable whether proposed funding mechanisms provide enough equity for businesses to realise these aspirations on the ground. Perhaps a micro-strategy is needed to address anomalies the agri-industry faces across the EU in order to better target support to primary producers, thus encouraging innovation in the sector.

Moving Forward: Opportunities and Challenges

Practical Opportunities and Implications for the Agricultural Sector

At present, it would appear that service industries will be the biggest winners, considering funding has been re-directed from farmers to fund research projects carried out elsewhere in the chain (although long-standing difficulties of supporting substantial engagement of SMEs in research and development...
projects may still be problematic). The results may very well benefit primary producers, but consideration must be given to the need for an extra financial mechanism to be put in place to bridge the gap between research and actual implementation on the ground. Returning to the disparities of SFP on a national scale, it is anticipated, those who lost out after the previous CAP Reform are less likely to have spare capital to invest in innovation. Those farming in more highly productive areas due to higher land class capability, generally benefited to a greater extent due to the orientation of historic payments based upon stocking densities, and consequently may be in a better position to implement innovations to their farming systems. Further analysis is required to establish the current economic challenges facing farming enterprises in this respect.

The EU recognises the reduced bargaining power of farmers within the food chain, and although innovation is needed to progress the sector, deeper analysis into the effects of re-direction of funding from primary producers is required. Redirection of funding else where within the food chain will not alleviate farmers’ immediate financial burdens, and the decreasing trend will inevitably continue unless grants are made available to primary producers to implement positive change. Bearing in mind other sectors of the food chain rely on the production activities of farmers, it is time to consider the real effect cuts in direct payments will have on an already vulnerable agriculture sector. In addition, regulatory and administrative burdens still plague the industry; with views that implementation of proposed CAP measures may cause yet another increase.

From an economic perspective, the new EU Member States are more heavily reliant on agricultural production as the base of their economy; with this in mind, it is fundamental to anticipate the effects “greening” will have on emerging economies, considering they require to be productive to lift their GDP. Issues surrounding economic development and societal challenges such as employment must be given due consideration, given the national structure of these States is quite different from that in the West. Also, the importance of food as a natural resource, is of great significance to the EU, and could be conceived as an opportunity for the sector. Acknowledging the lack of natural resources present within the borders of the EU highlights how economically vulnerable the Union is within the global arena.

Overall, reformation of the CAP poses many challenges for the sector, yet positives also exist. Opportunities associated with biomass, renewable energy, and GHG mitigation provide alternative income streams, and promote resource efficiency at farm level. Eco-innovation is of particular relevance, as this action plan focuses on the achievements of environmental objectives through innovation, potentially providing opportunities for rural areas. Lessons can also be learned from our counterparts in New Zealand, where adoption of attitudes for change, and implementation of “new thinking” on the ground has increased efficiency, and enabled farmers to make profit without government support. Knowledge exchange is central to this success, along with a culture for continuous improvement. Examining the benefits of symbiotic ventures such as High Nature Farming, may indeed help farmers tick all the boxes associated with compliance and profitability; it is perhaps time to think “outside of the box” to find innovative solutions to the problems currently facing the sector.

**Opportunities for organisations involved in research and knowledge exchange**

The Europe 2020 Strategy poses significant opportunities for organisations involved in research and knowledge exchange. The potential ring-fencing of €4.5 billion for research into innovation in agriculture will provide the opportunity to bid for funding to progress agricultural research in its broadest sense (although there is a caveat about the current proposed funding model that may mean that it is more difficult to cover the true costs of R&D in Horizon 2020 than has been the case with FP7). Key targets and objectives under EAFRD within the CSF aim to foster innovation and the knowledge base in rural areas, through:

- cooperation between the agriculture, food and forestry sectors
- the use of advisory services
- strengthening links between agriculture and research and innovation through setting up operational groups geared to bring together stakeholders from across the sector
Given innovation is the Strategy’s central focus, the European Innovation Partnership (EIP) for agricultural productivity and sustainability will be an important mechanism for enhanced linkages between research and farming practice, especially through the EIP network. Complementarity and coordination aim to synergise cohesion policy with Horizon 2020, giving rise to innovative approaches to research, covering a wide array of areas, including resource efficiency, environment, livestock disease, renewable energy, emissions, carbon sequestration, water management, soil management, climate change, organic farming, biodiversity, diversification, targeted advice on restructuring businesses, horizontal and vertical cooperation, and business start-up advice for young entrants. Support will also be available for investments in education and training systems in order to respond to evolving patterns of skills needs and demands with the purpose of reducing territorial disparities, which will in turn, complement ESF measures.

Overall, continued analysis of the relationship between research, industry and policy is required to ensure coherency in political direction. Several issues have been highlighted in this report as areas requiring further investigation. The European context is of great significance for the future of the agricultural sector, but given our globalizing market place, analysis of approaches to agricultural governance and development by the emerging economies could form the basis of future comparative studies.

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