The post-2013 Common Agricultural Policy

For nearly 50 years, the Common Agricultural Policy (CAP) has been at the centre of European integration, being one of the most emblematic, complex, expensive and debated EU policies.

The CAP has undergone four major reforms since 1962, gradually moving from supporting agricultural prices to allocating 'direct payments' to farmers. These payments were at first proportional to the level of output. Today, farmers receive these payments whether they produce or not (payments are 'decoupled' from production). Besides direct payments, the CAP finances 'market measures' (e.g. private/public storage) in its 'first pillar'. Successive reforms reduced market support measures to 'safety net' levels and reinforced the rural development dimension of the CAP. Funds are available for rural development measures in its 'second pillar'.

A new CAP will enter into force in 2014, along with a new multiannual financial framework, which will determine the amount of funds available for the CAP until 2020. The reform process has started. A major issue at stake is how direct payments will be structured, in terms of distribution among Member States and farmers, environmental considerations or administration.

The European Parliament has called for a strong post-2013 CAP, underpinned by the principles of sustainability, competitiveness and fairness. The Parliament considers that the CAP budget should be at least maintained at its 2013 level.

The draft CAP regulations could be adopted by the European Commission in October 2011. They will be discussed in the Parliament and the Council.

In this briefing:

Issue definition

In November 2010, the European Commission put forward several options for the post-2013 CAP in its Communication on the CAP towards 2020 [COM(2010) 672]. The draft CAP Regulations could be adopted by the European Commission in October 2011. The European Commissioner for agriculture Dacian Cioloş hopes that political agreement between the Council and the European Parliament can be reached in 2012, so that the implementing rules can be finalised in 2013. Member States (MS) could then define their options before the new CAP enters into force in 2014.

Lively and difficult discussions are expected in the Council, as well as in the European Parliament, given that the Treaty of Lisbon has reinforced the European Parliament's role as legislator in the area of agriculture. Agriculture matters are now mainly dealt with under the ordinary legislative procedure.

The CAP reform remains a sensitive issue, particularly because of its considerable importance in the EU budget (€57.2 bn in 2011, i.e. 41% of the total). Moreover, the legitimacy of the CAP has been questioned by some MS (e.g. the United Kingdom), whereas the policy is strongly backed by others (e.g. France).

The CAP is one of the few EU policies whose objectives were mentioned in the Rome Treaty (1957). The first CAP Regulations were adopted in 1962. Today, the CAP relies on a complex set of instruments and mechanisms, which have evolved over time.

A crucial issue for the post-2013 CAP is the current discussion on the new multiannual

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financial framework (MFF), which will set annual ceilings for EU expenditure, including for the CAP. The European Commission adopted its proposal on the new MFF in June 2011 [COM(2011) 500]. The decision on the new MFF will be taken by the Council deciding unanimously after receiving the EP's consent.

The current CAP: the basics

European agriculture is very diverse

The European agricultural sector comprises a wide variety of farms (e.g. size, legal form or employment arrangements), activities and environmental conditions (e.g. soils, climate).

Figure 1 - Some key data on EU agriculture.

Farms (all)	**13.7** million ; **12.6** ha/per farm ; **70%** less than 5 hectares **47%** of the EU is covered with agricultural land **56.5%** of the EU territory is 'rural' (**23.5%** of the EU population)
Organic sector	**197 000** organic farms ; **4.3%** of the Utilised agricultural area
Farmers	**55%** of farms holders are > 55 years-old ; **6,3%** are < 35 years-old Farm labour force: **26.7** million people **36%** of family farmers carry out another gainful activity
Income	Subsidies (direct payments + others) account for **40%** of the agricultural income (with large variations among Member States) EU real agricultural income per worker equals to around **60%** of the average wage in the EU
Share of GDP	**1.7%** of EU GDP (from **7%** in Romania to **0,3%** in Luxembourg)
Agricultural output	Crops **€ 184,6** bn (of which vegetables/horticulture **€ 50.7** bn, cereals **€ 41** bn), Animals **€ 138,5** bn (of which milk **€ 47.1** bn, pigs **€ 30.4** bn)
Agricultural trade balance	+ € **6,1** bn

Source: European Commission.

Five objectives, unchanged since 1957

The five objectives of the CAP are set out in the Treaty (art. 39 TFEU): to increase agricultural productivity, to ensure a fair standard of living for the agricultural community, to stabilise markets, to ensure the availability of supplies and that they reach consumers at reasonable prices. These objectives have remained unchanged since 1957, although the mechanisms of the CAP have considerably evolved.

Two 'pillars', two funds

The CAP is financed by the EU budget mainly through two funds (see figure 2). Aid under both funds is channelled through 80 national or regional paying agencies, which make payments to the beneficiaries.

The coming reform is the fifth

Until 1992, farmers' income was supported indirectly through a system guaranteeing high agricultural prices, combined with public intervention in agricultural markets (e.g. public purchase or export subsidies).

In 1992 the *'MacSharry' reform* led to the reduction of these guaranteed prices. This reduction was compensated by the introduction of direct aids, allocated to farmers per hectare or per animal.

In 1999, the *'Agenda 2000' reform* confirmed and reinforced the process started in 1992, and introduced the second pillar of the CAP.

The 2003 *'Fischler' reform* introduced 'decoupled payments', i.e. direct aids that are independent of the volume of agricultural output produced by farmers. They are supposed to make agriculture more market-oriented and to support farmers' income. MS were allowed to keep some payments partially coupled to production, in order to maintain farmers in areas at risk of abandonment of production (e.g. for suckler cows). Moreover, a mechanism called 'modulation' was introduced. Its goal is to increase the funds available for rural development (i.e. a percentage of funds from the first pillar is transferred to the second pillar every year).

The *'Health Check'* in 2008 induced *inter alia* further decoupling of direct aids and strengthened modulation. It also introduced more flexibility for MS in the implementation of the CAP (e.g. they can allocate 10% of the first pillar funds to support e.g. improvement of animal welfare in farms).

Figure 2 - The current CAP architecture.

Beneficiaries of CAP aid have to fulfil 'cross-compliance' requirements (e.g. maintain agricultural land in good agricultural and environmental conditions). Otherwise, their aid may be reduced.

First pillar: a patchwork of models

MS that joined the EU in 2004 and 2007: direct payments are progressively 'phased in' over a ten-year transition period (every year they receive more funds). They apply a 'simplified support scheme' (SAPS, a uniform payment per hectare, up to a national ceiling). This situation explains the fact that new MS still receive a relatively modest share of CAP payments.

Figure 3: Distribution of CAP payments between Member States in 2009.

2009 Payments	FIRST PILLAR			SECOND PILLAR		
Member States	Direct payment	Market measures	Total	Rural development	Total CAP	% in total CAP
France	8 166 983	1 330 750	9 497 733	947 342	10 445 075	17,4%
Germany	5 537 318	839 602	6 376 919	1 202 866	7 579 785	12,6%
Spain	5 132 638	1 090 794	6 223 432	1 320 831	7 544 263	12,5%
Italy	4 119 775	1 028 787	5 148 562	1 183 871	6 332 433	10,5%
United Kingdom	3 320 602	238 232	3 558 834	706 122	4 264 956	7,1%
Greece	2 493 624	163 477	2 657 101	482 113	3 139 214	5,2%
Ireland	1 277 801	57 344	1 335 145	346 851	1 681 996	2,8%
Austria	712 390	65 005	777 395	580 732	1 358 127	2,3%
Portugal	601 801	125 958	727 759	584 180	1 311 939	2,2%
Netherlands	823 117	371 559	1 194 676	73 671	1 268 348	2,1%
Denmark	976 387	98 769	1 075 156	67 411	1 142 567	1,9%
Sweden	713 363	62 677	776 039	270 816	1 046 855	1,7%
Belgium	574 344	321 383	895 727	62 458	958 186	1,6%
Finland	545 261	68 715	613 976	308 265	922 241	1,5%
Luxembourg	34 513	802	35 314	13 256	48 570	0,1%
Total EU15	**35 029 915**	**5 863 854**	**40 893 769**	**8 150 786**	**49 044 555**	**81,6%**
Poland	1 562 240	474 938	2 037 178	1 971 440	4 008 618	6,7%
Romania	533 429	69 473	602 902	1 502 692	2 105 593	3,5%
Hungary	682 635	295 195	977 830	527 075	1 504 905	2,5%
CzechRepublic	473 695	83 754	557 449	409 036	966 486	1,6%
Bulgaria	210 330	17 552	227 881	456 844	684 725	1,1%
Slovakia	200 629	73 493	274 121	282 749	556 871	0,9%
Lithuania	195 819	39 209	235 028	249 949	484 977	0,8%
Latvia	76 323	33 945	110 268	150 343	260 610	0,4%
Slovenia	70 181	34 361	104 542	136 508	241 050	0,4%
Estonia	51 399	2 916	54 315	101 037	155 351	0,3%
Cyprus	24 607	14 154	38 760	23 950	62 710	0,1%
Malta	2 719	902	3 621	11 257	14 878	0,0%
Total EU12	**4 084 004**	**1 139 890**	**5 223 894**	**5 822 879**	**11 046 773**	**18,4%**
Total EU27	**39 113 919**	**7 004 656**	**46 118 575**	**14 001 778**	**60 120 353**	100,0%
	% in direct payments	*% in market measures*	*% in first pillar*	*% in second pillar*	*% in CAP payments*	
EU15	90%	84%	89%	58%	82%	
EU12	10%	16%	11%	42%	18%	

Data source: European Commission, 2011.

Malta and Slovenia already apply the system used by the other MS.

Other MS: they could choose one of the three models available for the implementation of the decoupled payments system:

- 'historic' model: payments received by farmers per hectare are directly proportional to the payments they received in the past. Most MS have chosen this model.
- 'regional' model: farmers in the same region receive the same payment per hectare.
- 'hybrid' model: a mix of the other two.

A key issue for the CAP: aid distribution

Some criticisms of the CAP are based on the fact that the aids are distributed unevenly among MS and farmers (e.g. larger farms and wealthier farmers receive the largest subsidies).

Among MS

The financial importance of direct payments and rural development payments differs considerably across MS.

The distribution of direct payments between MS reflects history: MS that received the most coupled payments in the past (i.e. crops and meat producers) still receive a large share of the CAP budget. The distribution of rural development funds between MS also largely reflects their past rural payments.

Among farmers

The model chosen by MS influences widely the distribution of aid among farmers within MS. The regional model favours more equally distributed aids between farmers. As the distribution of aids is still largely based on the surface area of land farmed, a high proportion of direct payments go to large farms.

Figure 4: Distribution of direct payments to beneficiaries in 2009.

Size-class of aid	Number of beneficiaries	%	*Cumulated %*	Payments €	%	*Cumulated %*
≥ 0 and < € 500	3 442 100	*43,7%*	*43,7%*	773 458 000	*2,0%*	*2,0%*
≥ € 500 and < € 1250	1 468 840	*18,7%*	*62,4%*	1 179 676 000	*3,0%*	*5,0%*
≥ € 1250 and < € 2 000	594 570	*7,6%*	*70,0%*	941 561 000	*2,4%*	*7,4%*
≥ € 2000 and < € 5 000	904 050	*11,5%*	*81,5%*	2 896 702 000	*7,4%*	*14,8%*
≥ € 5 000 and < € 10 000	551 090	*7,0%*	*88,5%*	3 918 105 000	*10,0%*	*24,8%*
≥ € 10 000 and < € 20 000	423 500	*5,4%*	*93,8%*	6 019 144 000	*15,4%*	*40,2%*
≥ € 20 000 and < € 50 000	354 060	*4,5%*	*98,3%*	10 888 601 000	*27,8%*	*68,1%*
≥ € 50 000 and < € 100 000	93 840	*1,2%*	*99,5%*	6 303 091 000	*16,1%*	*84,2%*
≥ € 100 000 and < € 200 000	22 890	*0,3%*	*99,8%*	3 035 601 000	*7,8%*	*91,9%*
≥ € 200 000 and < € 300 000	4 210	*0,1%*	*99,9%*	1 010 652 000	*2,6%*	*94,5%*
≥ € 300 000 and < € 500 000	2 360	*0,03%*	*99,9%*	890 605 000	*2,3%*	*96,8%*
≥ € 500 000	1 410	*0,02%*	*100,0%*	1 259 721 000	*3,2%*	*100,0%*
Total	**7 868 570**	***100,0%***		**39 109 428 000**	***100,0%***	

Data source: European Commission, 2011. *e.g.: 88.5% of beneficiaries received in total 24.8% of direct payments in 2009.*

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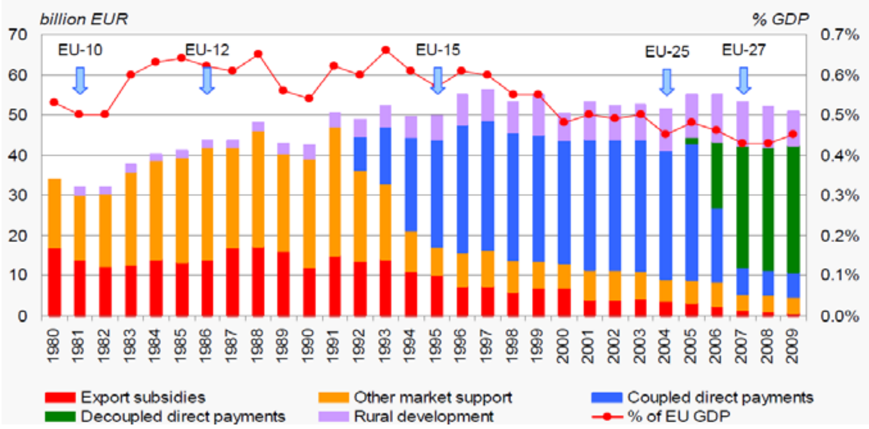
Figure 5: Evolution of CAP expenditure by aid type, in constant 2007 prices.



Source: European Commission, 2010.

The Commission proposal for the next CAP

Challenges facing the CAP

The Commission justified the need for reform by a series of challenges: ensure *food security*, foster the *sustainable management of natural resources*, tackle *climate change*, improve agriculture *competitiveness, maintain agricultural production in the whole EU territory*, strengthen *territorial and social cohesion* in rural areas, *reduce financial disparities between MS and farmers*, and *simplify* CAP mechanisms.

Main issues for the next CAP

Horizontal issues: size of CAP budget; structure of the CAP (number of pillars, budget allocation between the pillars); degree of flexibility left to the MS for the CAP implementation; CAP compatibility with international trade agreements (e.g. WTO).

Direct payments: characteristics of direct payments (e.g. degree of 'greening' beyond existing cross-compliance obligations, capping, targeting to active farmers), distribution between MS.

Market support: characteristics of market measures, promotion of farmers' collective actions to increase their share of added value in the food supply chain.

Rural development: objectives and priorities, degree of co-ordination with other EU funds and delivery mechanisms of rural development policy.

The three goals for the post-2013 CAP

According to the Commission, the future CAP should aim at:

- Ensuring *viable food production*, by limiting farm income volatility, improving the competitiveness of the agricultural sector, increasing its share of added value in the food chain (which has been decreasing), helping farmers tackle natural constraints in regions at risk of land abandonment.
- Ensuring the *sustainable management of natural resources and tackling climate change*, by fostering sustainable production practices, the provision of environmental public goods (e.g. goods available for everyone but whose supply cannot be secured by the markets, such as landscapes or resilience to fires), fostering green growth through innovation, pursuing climate change mitigation);
- Fostering *balanced territorial development*, by supporting rural employment, improving the rural economy and promoting diversification, preserving structural diversity of farming systems (including small farms).

The two pillar structure would be maintained

First pillar

- *Direct payments*

The Commission proposes the redistribution, redesign and better targeting of direct payments, on the basis of objective criteria (possibly economic, social or environmental).

The proposal rejects a 'flat-rate' solution (the same payments for all farmers in the EU), as they face very different economic and natural conditions.

Direct payments should be aimed at 'genuinely' active farmers, to increase the CAP's legitimacy. The European Court of Auditors recently pointed out [Special Report 05/2011] that the lack of precision in the definition of 'farmers' and 'agricultural activity' made it possible for some persons or entities having no or marginal agricultural activity to benefit from CAP payments (e.g. sports clubs, railway companies, and airports).

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- *Market measures*

The Commission considers that the current market instruments have proved useful (e.g. during the recent milk crisis). However they need to be simplified. Moreover, the functioning of the food chain must be improved (e.g. by strengthening the bargaining power of farmers in the food chain by encouraging collective action).

Second pillar

For the Commission, the main topics for rural development policy should be the environment, climate change and innovation. It also mentions a 'Common strategic framework for EU funds', aimed at improving coherence between rural development and other policies. A risk management toolkit should also be set up, to deal with income uncertainties and market volatility.

The three options for CAP reform put forward by the Commission

Option 1: (only adjustments) the most criticised aspects of the CAP would be improved (e.g. distribution of direct payments between MS), but the same systems of direct payments would be maintained. Risk management tools and market instruments could be improved where appropriate. Current rural development orientations would be maintained.

Option 2: (major changes) a new design for direct payments would be introduced, their distribution patterns would be more equitable, a new scheme for small farms would be created. Market measures would be improved and simplified. In relation to rural develop-ment, priorities would be better aligned with Europe 2020 priorities, environment, climate change and innovation. Existing risk management tools would be improved and a stabilisation tool to compensate for substantial income losses would be introduced. Rural development funds could be redistributed based on objective criteria.

Option 2: Structure of direct payments

- **Basic rate** (=income support) *Capped*
- **Compulsory additional aid for specific greening public goods** (=agri-environmental actions)
- Payment to compensate for **specific natural constraints**
- Voluntary coupled support for **specific sectors and regions**

Option 3: (substantial reform) a progressive phasing-out of direct payments would be introduced. They would be replaced by payments for environmental public goods and natural constraints. Market measures would be abolished, except in times of severe crises. Rural development measures would be focused on environmental aspects and climate change.

Financial aspects: the new MFF

The European Commission proposal on the new MFF mentions €387 bn for CAP for 2014-2020 (in 2011 prices): €282 bn for the first pillar and €90 bn for the second pillar. For 2007-2013, €330 bn is available for the first pillar and €96 bn for the second pillar (in current prices).

European Parliament's views

The EP rejects a reduced CAP budget

The 2011 Resolution on Investing in the future, concerning the post-2013 MFF, [Garriga Polledo, P7_TA(2011)0266] highlighted that the CAP should contribute to the EU's Europe 2020 Strategy (it was adopted with 468 votes in favour, 134 against and 54 abstentions). MEPs reaffirmed that the amount of the CAP budget for 2013 should be at least maintained during the next financial programming period (the CAP funds being allocated and used more effectively and efficiently, and the two pillars system being maintained). They also called for greater synergies between the two CAP funds and the Structural and Cohesion Funds.

MEPs support a strong post-2013 CAP

The debate on the post-2013 CAP started in the EP before the publication of the Commission Communication. In July 2010, the Resolution on the future of the CAP after 2013 [Lyon, P7_TA(2010)0286] called for a strong post-2013 CAP, with a budget maintained at least at current levels. It was adopted by show of hands. It also highlighted the need for a fair distribution of CAP payments in both new and old MS, and for a greener and simpler CAP.

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More recently, the June 2011 Resolution on the CAP towards 2020 [Deß, P7_TA(2011)0297] largely endorsed the Commission Communication and gave a detailed overview of the EP vision for a strong post-2013 CAP, underpinned by the principles of sustainability, competitiveness and fairness. The Resolution was adopted by show of hands again.

MEPs called for the two pillars structure to be maintained.

They expressed their opposition to any move towards a renationalisation of the CAP (i.e. towards more national co-financing, including in the first pillar). The EP reiterated its call for the CAP budget to be maintained. However, CAP funding should be distributed more fairly between MS and between farmers within MS, based on objective criteria. The EP rejected a uniform flat-rate direct payment for the whole EU. The new direct payments should enable MS to receive a minimum percentage of the EU average direct payment, with a ceiling being set. Furthermore, only active farmers should receive direct payments. The EP also supports additional incentives to encourage farmers to adopt environmentally friendly practices and therefore supports the introduction of the greening component of direct payments, but rejects any additional control and sanction system.

The EP supports compensation for natural disadvantages in the second pillar (rather than in the first one), as well as a specific regime for small farmers.

MEPs highlighted that a multi-level safety net covering all sectors is needed in times of crises caused by market instability. Moreover, risk prevention measures accessible to all farmers in the EU should be developed.

MEPs also called for a simplification of programming and management of second pillar funding. MEPs reiterated their call for better coordination at EU level between rural development programmes and cohesion policy, in order to avoid duplication, overlapping and contradictory objectives.

Main references

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Further reading:
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