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Common Agricultural Policy after 2013

What will change

SUMMARY *The 50-year old Common Agricultural Policy (CAP) is heading for a new reform to tackle current challenges such as climate change, food security and sustainable management of natural resources. Over the years, it has moved away from supporting market prices to supporting producers' income and rural development, while imposing rules for the protection of the environment. Criticism has, however, remained, notably on the CAP's perceived inequity, its lack of transparency, and its impact on poor food-exporting countries, to mention just a few.*

The new round of reform is therefore aimed at making the CAP more equitable (both within and between Member States) and greener, while maintaining its effectiveness and ensuring it is simple and competitive. Proposals include making direct payments more sustainable, more fairly distributed, and aimed at active farmers; simplifying financial management; introducing new tools to help farmers cope with price and income volatility; and increasing competitiveness and growth in rural areas.

The CAP reform is however taking place against the backdrop of budgetary constraints in many Member States and the three-way negotiations between the Commission, Parliament and Council are seen to be difficult. Final agreement is hoped to be reached by July 2013.

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Background

The Common Agricultural Policy (CAP) is one of the major European Union (EU) policies, both in terms of budget and its impact on the EU's 500 million citizens. The agricultural sector provides 14 million jobs to farmers (see Fig. 3), generates around 6% of EU gross domestic product, and contributes to making the EU the second largest exporter of agricultural goods. However, the CAP is also one of the most controversial EU policies, not only because of its substantial cost, but also because it is considered unfair both internally (i.e. distribution of support within and among Member States (MS)) and on a global scale (i.e. harming agriculture in developing countries).

Initially focused on increasing agricultural productivity in the EU and securing availability of food supplies, the policy has gradually evolved, with the overall aim of becoming more market-oriented and less trade-distorting. At present, the CAP aims at ensuring a fair standard of living for farmers while safeguarding the countryside and providing a stable and safe food supply at affordable prices for consumers.

The reform announced by the Commission in October 2011 is the first major CAP reform involving 27 MS, representing a substantial diversity of farm structures and priorities. This round of reform is being conducted

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against a background of financial constraints in many MS.

Why the CAP needs to be reformed

Previous CAP reforms

The CAP has undergone various reforms since its inception in 1962: the MacSharry reform (1992), the Agenda 2000 (1999), the Fischler reform (2003) and the 'Health Check' (2008).

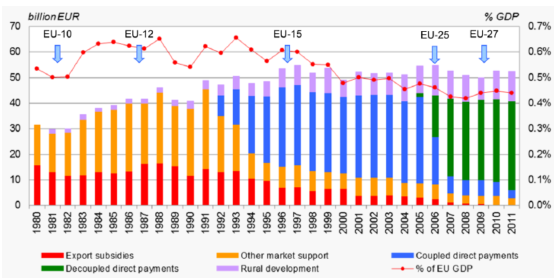
The rationale behind these reforms resulted in a shift from product support (i.e. through fixed prices) to producer support (i.e. through direct payments to support farmers' income). Moreover, the link between direct payments and production volume has progressively been reduced, while spending on rural development has been reinforced (see Fig. 1).

Criticism

CAP funding remains a sensitive issue, particularly because of its considerable importance in the EU budget. Over the 25 years to 2011, CAP expenditure has decreased from almost 75% to 44% as a share of the EU budget, but it still remains the single largest item.

There has been strong demand for a fairer distribution, to increase the social and political acceptance of the CAP. A considerable number of stakeholders wish to see a more balanced distribution of support among farmers. This applies within MS – internal convergence – with the CAP criticised for its perceived inequity[1], allocating the biggest payments to a small

Figure 1: CAP expenditure and CAP reform path (constant 2007 prices)



Source: CAP post-2013: Key graphs and figures, European Commission, March 2013.

number[2] of large or resource-intensive farms. Equally it applies between MS – external convergence – where it has been argued that farmers from the 'new' MS get much less than those from the 'old' MS (see Fig. 2).

NGO experts claim that CAP subsidies have been supporting land grabs (concentration of land in the hands of wealthy investors) by increasing the value of land, rather than contributing to farmers' income, and thus block the entry of young farmers.

Lack of transparency about CAP beneficiaries has been another common criticism. A Eurobarometer survey (2011) showed that 62% of respondents consider that this information should be available to the public.

NGO experts have also insisted on shifting the focus of the policy from an input-oriented to a target-oriented one, while regretting that the CAP does not sufficiently encourage farmers to move towards genuinely sustainable food production or to adopt methods of land management that meet the real challenges of the future: mitigating and adapting to climate change, securing functioning ecosystems, improving water resources, and guaranteeing long-term capacity for ongoing food production.

The European Court of Auditors stressed that CAP support should be directed to active farmers, and eligibility criteria should be more clearly defined to exclude beneficiaries whose agricultural activities form only an insignificant part of their overall economic activities, such as recreational and sports clubs, nature reserves, hunting estates, and campsites.

The United Nations Special Rapporteur on the Right to Food expressed concerns over the impacts of CAP on poor and net food-importing countries. Moreover, various NGOs (e.g. CONCORD, APRODEV) and think-tanks have criticised the absence of a complaint mechanism for developing-country farmers in case of prejudice caused by EU food exports, and insisted on the inclusion of a

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chapter on international responsibility in the CAP legislation.

Challenges facing the CAP

The main arguments put forward by the Commission for further CAP reform include a series of challenges, notably: ensuring food security, fostering sustainable management of natural resources, tackling climate change, improving agriculture competitiveness, maintaining agricultural production, strengthening territorial and social cohesion in rural areas, making CAP support equitable and balanced between MS and farmers, and simplifying CAP implementation procedures.

Overview of the proposal

CAP structure 2007-2013

Currently, the CAP is based on a two-pillar structure. **Pillar I** is funded through the European Agricultural Guarantee Fund (€330 billion for 2007-2013, at current prices) without national co-financing. It is mostly composed of direct payments (i.e. income-support measures for farmers) and market measures (e.g. export subsidies that enable EU farmers to export their products at prices below the cost of production). It accounts for around 80% of total CAP spending. Direct payments can be coupled (i.e. linked to production) or decoupled (e.g. based on farm entitlements through the Single Payment Scheme – SPS and the Single Area Payment Scheme – SAPS). 87% of current direct payments are decoupled.

Pillar II is funded via the European Agricultural Fund for Rural Development (€96 billion for 2007-2013, at current prices) and is subject to national co-financing. It aims to promote economic, social and environmental development and accounts for around 20% of total CAP spending.

In October 2011, the Commission presented a set of proposals for regulations, accompanied by an impact assessment evaluating alternative scenarios for the evolution of the CAP on the basis of quantitative and qualitative analysis.

The Commission suggests modifying the EU's system of direct payments to farmers, market measures and rural development measures, while retaining the two-pillar structure.

Direct payments

The Commission is proposing to replace the SPS/SAPS by a ***Basic Payment Scheme*** from 2014. The aim is to create a fairer distribution of payments between farmers, between regions and between MS. It is anticipated that 70% of direct payments will go to supporting the basic income of farmers.

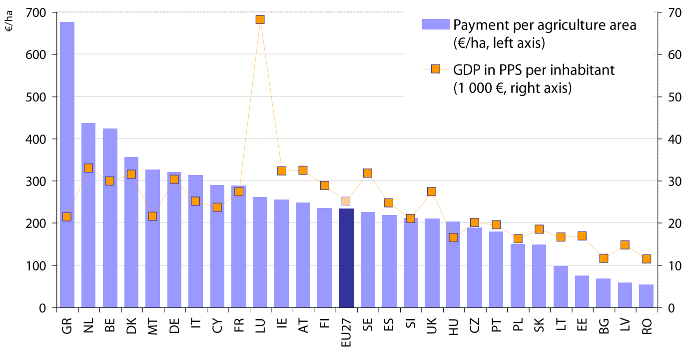
All MS will have to implement uniform payments per hectare at national and regional level (***internal convergence***) by 2019. In order to improve ***external convergence***, the Commission proposes that the MS with the highest levels of payment per hectare see a reduction in their envelope and those receiving less than 90% of the EU average, get an increase. The Commission proposes that the difference between the lowest payments and 90% of the European average for the period be cut by one third. For instance, if a MS currently receives an average amount per hectare which is 75% of the EU average, i.e. 15% below 90%, then this will gradually increase to 80%.

The Commission is also suggesting a cut in the total of direct payments made to a single farmer. The reduction will be: 20% for payments in the €150 000 - €200 000 bracket, 40% between €200 000 and €250 000 and 70% for payments between €250 000 and €300 000.

The Commission foresees that 30% of direct payments are made available for environmentally friendly agricultural practices (***greening***). The aid would be calculated in proportion to the surface area of farms. Three agricultural practices will have to be respected: crop diversification (farmers must grow at least three crops on their arable land); maintaining permanent pasture; and maintaining a reservoir of biodiversity and landscape elements (at least 7% of farmland must be used for ecological purposes).

An aid regime is planned for ***small farms***. This regime is optional and MS would be

Figure 2: Levels of average direct payments vs. GDP



Source: Direct payments (European Commission 2011), agricultural area (Eurostat 2010), GDP (Eurostat 2011, except for Cyprus and Poland 2010), own calculation.

able to earmark up to 10% of their direct payments for this purpose. The aid would be annual and fixed at between €500 and €1 000. To avoid artificial parcelling of farms, applications for this aid regime would only be open until 15 October 2014.

The basic payment to new entrant ***young farmers*** (under 40) would be complemented by an additional 25% for the first five years of installation, but for a limited surface area (25 hectares maximum). This would be funded by up to 2% of the national envelope.

MS would be allowed to top up the basic payment with additional aid (up to 5% of the national envelope) for ***farmers in areas with natural constraints***. At the same time, the Commission has kept in place the rural development measure for less favoured areas, with an increase in the maximum aid (€300/hectare).

Additionally, MS will have the option of providing limited amounts of ***coupled payments***. This will be limited to 5% of the national envelope if the MS currently provides 0-5% of coupled support, or up to 10% if the current level of coupled support is higher than 5%.

In order to eliminate a number of loopholes, the definition of ***active farmers*** would be tightened. It is proposed that very large beneficiaries with land, but little or no agricultural activity, be excluded from these payments.

Cross-compliance (aid granted subject to meeting certain environmental, animal welfare and quality criteria) will be kept in place, but simplified.

MS would be given the possibility of ***transferring*** up to 10% of their national envelopes for direct payments (Pillar I) to their rural development envelopes (Pillar II). Those which get less than 90% of the EU average for direct payments would be able to transfer up to 5% of their rural development funds to their direct payments envelope.

Market measures

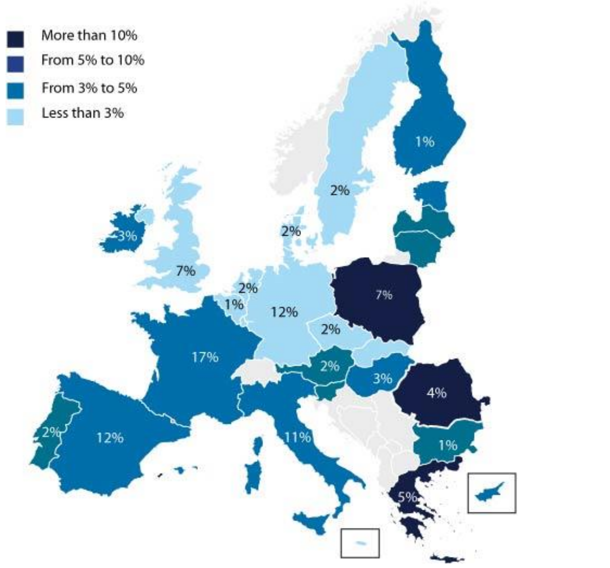
The existing ***public intervention and private storage measures*** are designed to help producers, by removing certain products from the market and placing them temporarily in storage. The Commission is proposing to extend private storage to practically all types of production for which this is justified. In the framework of Pillar II, the Commission is proposing a new crisis management tool to fight volatility. The Commission has also put forward an '***exceptional disturbance clause***' for all sectors, in order to allow for emergency measures to combat serious unforeseen circumstances (i.e. sanitary crises such as the E. coli outbreak in 2011).

For the sugar sector, the Commission is planning for the ***production quota system*** to expire in September 2015. In the post-quota period, white sugar would be eligible for private storage aid. Additionally, framework provisions would be set in place for agreements between the sugar industry and producers.

The Commission has also put forward measures to improve farmers' negotiating power. Each MS would have to register and recognise ***producer organisations***. The Commission is also proposing to extend to other sectors the option, which exists in the fruit and vegetables sector, to act collectively within producer organisations. Farmers would be able to act together to carry out various actions, except price-setting.

Finally, the Commission suggests renewing the programmes to distribute fruit, vegetables and milk to schools.

Figure 3: Agricultural workforce* and CAP expenditure**



* Agricultural workforce as a percentage of the national total (see legend for colours).
** CAP expenditure as a percentage of the total CAP budget is shown as a figure on the map.
Source: Eurostat (workforce), 2011, European Commission (expenditure), 2011.

Rural development

New measures are proposed to increase the competitiveness and growth of rural areas around six priorities: encouraging innovation; increasing competitiveness; working on the organisation and management of risk; preserving ecosystems; encouraging efficient use of resources; and promoting social inclusion. Targets would have to be set to measure progress towards these priorities. Some 5% of the funds would be held back in a '***performance reserve***' and would be released upon progress made. The EU co-funding rates would be 85% in less developed regions, the outermost regions and the smaller Aegean islands, and 50% in other regions.

Financial management and control

The proposal for a horizontal regulation aims to bring together relevant rules on cross compliance, checks, and penalties and includes various simplification elements (such as reducing the number of paying agencies). In addition, the rules on management and controls would be aligned, for the two pillars. The Commission would have the possibility to reduce the number of on-the-spot checks for MS with low error rates.

CAP funding: Parliament vs. Council

The CAP budget is set for a period of seven years within the Multiannual Financial Framework (MFF). The Commission's proposal for a new MFF for the period 2014-2020 is still under negotiation. The outcome of these negotiations will determine the overall budget available for the EU's agricultural policy over the period.

Historically, the Council has focused on fiscal consolidation (i.e. reducing deficits and the accumulation of debt). This explains its proposal to cut total expenditure for the post-2013 period. In contrast, the European Parliament (EP) supports increasing resources for the EU budget, at least to the level of the 2007-2013 ceilings. This logic applies equally to the negotiations on the CAP budget.

In February 2013, the European Council agreed on €277 851 million for direct payments and market measures and €84 936 million for rural development in the 2014-2020 MFF. These amounts are lower than the current MFF and the Commission's initial and amended proposals. Detailed figures for reduction vary (since calculations refer to different bases to serve different purposes) but the overall CAP budget would suffer a two-digit cut compared to 2007-2013. This is the first time in the EU's history that an MFF is set at a lower level than its predecessor.

Intricacies of three-way negotiations

In the past, the EP has had limited influence over agricultural policy (i.e. the Council took decisions based on a Commission proposal and the EP simply gave its opinion). This has however changed with the Lisbon Treaty which put the EP and the Council on an equal footing.

Members of the Parliament used this new power for the first time in March 2013 when they voted on hundreds of amendments to shape Parliament's mandate for the CAP negotiations. The discussions that followed the votes showed the extent of division among political groups. Reactions to the EP's vote from the industry and ecologists were mixed. While COPA-COGECA stressed that the mandate "is a good basis to work on and marks a key step forward in the EU decision process", WWF judged the overall result as "disappointing" even though Parliament "has blocked the worst aspects of its Agriculture Committee's proposal". Concerning the CAP's impact on developing countries, the NGO confederation CONCORD declared that Parliament had "failed to come to terms with the damaging role of the CAP".

Stakeholder responses to the Council position adopted in March 2013 were also mixed, with industry (e.g. COPA-COGECA) generally welcoming the proposals and environmentalists (e.g. WWF, EEB and BirdLife Europe) unhappy with the extent to which the greening proposals had been watered down.

Three-way negotiations (Commission, Parliament, and Council) started in April 2013 with a view to adoption of a final agreement in July, to allow the next CAP to enter into force in January 2014. Talks however are difficult, since the EP and Council have diverging views on key points of the Commission proposal such as greening (double payments, sanctions), capping and internal convergence, as well as the percentage of aid that can be coupled, support for young farmers, and the common market organisation (sugar, reference price, strengthening of farmers' position in the supply chain, etc.).

According to press sources, EU officials have acknowledged that the slow pace in approving the CAP proposals and budget makes it unlikely that the policy can be implemented before 2015. The Commission remains confident that the new regulations can be in place from January 2014. It considers however that it is not realistic for MS to have all the necessary administrative procedures implemented by the start of next year. In order to ensure continuity, transitional rules have been foreseen for some elements of the policy, in particular for direct payments.

Further reading

Greening the CAP, Library navigator/ Ana Martinez Juan, December 2012.

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Endnotes

[1] Farmsubsidy.org, an NGO providing information on CAP recipients and payments, laments the fact that the UK's Queen Elizabeth, for instance, has received substantial amounts under the CAP.

[2] Commission data shows that in 2009, some 80% of beneficiaries received €5 000 or less (i.e. around 20% of the total amount of direct payments) and around 0.5% of the beneficiaries received €100 000 or more (i.e. 16% of the total amount of direct payments).

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