Common Agricultural Policy – Pillar I

In a nutshell
The Common Agricultural Policy (CAP) concerns the pooling of European Union resources spent on agriculture and aimed at protecting the viable production of food, the sustainable management of natural resources and to support rural vitality. It consists of two pillars, the first includes direct payments (i.e. annual payments to farmers to help stabilise farm revenues in the face of volatile market prices and weather conditions) and market measures (to tackle specific market situations and to support trade promotion). The second pillar concerns rural development policy. Nearly 38% of the EU budget is spent on the CAP; for the Multiannual Financial Framework 2014-2020 the CAP amounts to €408.31 billion, of which €308.72 billion is allocated to the first pillar.

EU Multiannual Financial Framework (MFF) heading and policy area
Heading Sustainable Growth: Natural Resources
Common Agricultural Policy (Pillar I) – Direct payments and market measures

2014-2020 financial envelope (in current prices and as % of total MFF)
Commitments: €312.73 billion (29%) – first pillar before transfer between pillars
Commitments: €308.72 billion (28.5%) – first pillar after transfer between pillars

2016 budget (in current prices and as % of total EU budget)
Commitments: €42.22 billion (27.2%)
Payments: €42.21 billion (29.3%)

2015 budget (in current prices and as % of total EU budget)
Commitments: €43.45 billion (30%)
Payments: €43.44 billion (30.7%)

Methods of implementation
Shared management by Member States and European Commission (DG AGRI).

In this briefing:
- EU role in the policy area: legal basis
- Objectives of the programme
- Funded actions
- Assessment of programme/actions
- Other EU programmes and actions in the same field
Glossary

**Cross-compliance**: To receive direct payments and some other forms of support, farmers are required to respect certain rules. This requirement is known as cross-compliance. These rules concern food safety, animal health, plant health, the climate, the environment, protection of water resources, animal welfare, and the condition in which farmland is maintained. There are two components of these rules: SMR and GAEC (see below). If a farmer is found not to respect these rules, his or her direct payments may be reduced.

**Export refunds**: Export refunds may be paid by the European Union to trading companies that sell certain agricultural goods in third countries. The refund normally covers the difference between the internal EU price and the world market price. Export refunds in 2013 reached the rate of zero for all products, and may only be activated when market conditions are such that exceptional measures are justified.

**Decoupling**: means the removal of the link between the receipt of a direct payment and the production of a specific product. Prior to this reform, farmers received a direct payment only if they produced the specific product to which the direct payment was associated.

**LPIS**: The Land Parcel Identification System is a computer database that contains all agricultural areas that are eligible for a direct payment under the Common Agricultural Policy. It is used to cross-check the parcels for which payments have been claimed by the farmer. The land parcel identification system ensures that the farmer is paid for the correct area and that overpayment is avoided.

**EU role in the policy area: legal basis**

The Common Agricultural Policy (CAP) consists of two pillars, the first includes **direct payments** (i.e. annual payments to farmers to help stabilise farm revenues in the face of volatile market prices and weather conditions) and **market measures** (to tackle specific market situations and to support trade promotion); whereas the second pillar concerns **rural development policy**.

Agricultural policies are at the crossroads of several crucial aspects of European Union, (e.g. viable food production, sustainable management of natural resources, rural vitality), with a direct impact – according to the European Commission – on more than half of EU territory and EU consumers. In the EU, more than 7.3 million farmers are CAP direct payment beneficiaries and they manage more than 170 million hectares of agricultural land. At present, nearly 38% of the EU budget is spent on CAP – with €408.31 billion allocated to CAP for the Multiannual Financial Framework (MFF) 2014-2020, of which €308.72 billion is allocated to the first pillar (28.5%).

**Figure 1** – **Headings of the EU annual 2016 adopted budget, in € million**

Data source: European Commission, DG Budget.
The CAP in the Treaties and EU regulations

Articles 38 to 42 and Annex I of the Treaty on the Functioning of the European Union (TFEU) set out the basic rules and the objectives to implement a common agriculture and fisheries policy. After having illustrated the main aspects of CAP (Article 38), the TFEU goes on to enumerate the goals of CAP (Article 39) and to explain the organisational forms needed to tackle these objectives (Article 40). Articles 41 and 42 of the TFEU are dedicated to specific aspects of CAP implementation.

The legal basis of the first CAP pillar for 2014-2020 includes the following EU regulations: firstly, Regulation (EU) No 1307/2013 – containing the single basic act and a comprehensive code for direct payments to farmers; secondly, Regulation (EU) No 1308/2013 establishing a common organisation of the markets in agricultural products; thirdly, Regulation (EU) No 1306/2013 covering horizontal CAP issues (i.e. financing, management and monitoring).

Objectives of the programme

The 2014-2020 CAP aims to address a set of challenges, including the guarantee for viable food production, the promotion of sustainable management of natural resources and the adoption of actions aimed at mitigating climate change. As set out in Article 39 TFEU, the CAP has five main objectives, namely:

1. To increase agricultural productivity by promoting technical progress and ensuring the optimum use of the factors of production, in particular labour;
2. To ensure a fair standard of living for farmers;
3. To stabilise markets – a crucial challenge, given the frequent alternation between sharp increases in global food prices and severe price depression;
4. To ensure the availability of supplies;
5. To ensure reasonable prices for consumers.

According to the Monitoring and Evaluation Framework of the CAP, the intervention logic for the first pillar of the current CAP involves the following specific objectives that must be achieved by direct payments:

- contribute to farm incomes and limit farm income variability in a manner that includes minimal trade distortion;
- improve the competitiveness of the agricultural sector and enhance its value share in the food chain;
- maintain market stability and meet consumer expectations;
- provide public goods and mitigation/adaptation of climate change effects.

The shift of focus in challenges to the CAP over the years

When it was first established in the 1960s, the CAP had specific goals: to ensure the availability of food supply at reasonable prices, and to ensure a fair standard of living for farmers, mostly by maintaining high and stable prices for the major agricultural products by way of market intervention.

While the initial objectives of the CAP have not officially changed, other dimensions have received increasing attention in recent years. As shown in table 1, this change in the CAP challenges is clearly exemplified by the 85 percentage points decrease (from up to 90% to only 5%) in market interventions' share of the total CAP budget over a period of 24 years (1990-2014).
Table 1 shows that most of the current CAP budget is fully decoupled (no longer linked with specific agricultural production) or allocated to rural development policy (second pillar).

Indeed, current CAP challenges now embrace areas which go far beyond agriculture alone. These concern economic competitiveness (including issues of food security and globalisation; a declining rate in productivity growth; price volatility; pressures on production costs due to high input prices; and the deteriorating position of farmers in the food supply chain); environmental sustainability (relating to resource efficiency; soil and water quality; and threats to habitats and biodiversity); and territorial balance (where rural areas are faced with demographic, economic and social developments, including land abandonment, depopulation and relocation of businesses).

Table 1 – CAP payments from 1990 to 2013 and MFF ceiling from 2014 to 2020

![Graph showing CAP payments from 1990 to 2013 and MFF ceiling from 2014 to 2020]

Source: European Commission, DG Agriculture and Rural Development.

**Funded actions**

More than **€308.72 billion** – out of the €408.31 billion of the CAP MFF for 2014-2020 – is allocated to direct payments and market measures. Within Heading 2, Sustainable growth and natural resources, the first CAP pillar accounts for €42.22 billion in 2016, as illustrated in figure 2.

Direct payments are payments granted annually directly to farmers’ bank accounts, as income support and to provide a safety net. Market measures are included in the single Common Market Organisation (CMO), which sets out the parameters for intervening in agricultural markets and providing sector-specific support (e.g. for fruit and vegetables, wine, olive oil, school schemes).
Direct payments
CAP direct payments are decoupled from specific production, market-oriented and intended to support farmers’ income stemming from sales on the markets, which are subject to price volatility. In order to maximise their profits, producers must respond to market signals, so that they produce the goods which consumers demand. Moreover, with the introduction of the greening component, and in combination with cross-compliance rules, direct payments deliver basic public goods. Indeed, direct payments are multi-purpose payments, composed of three compulsory components and three voluntary components for Member State implementation. The compulsory components are as follows:

- The first consists of a basic payment per hectare, as income support, the level of which is to be harmonised according to national or regional economic or administrative criteria and subject to a convergence process between farmers and Member States;
- The second is a greening component, as additional support to compensate for the costs of providing environmental public goods not remunerated by the market, through three environmentally-friendly farm practices: crop diversification, maintenance of an ecological focus area and the protection of permanent pasture. Member States have to use 30% of their national direct-payment envelopes to fund the greening component;
- The third consists of an additional payment for five years for young farmers for the first 90 hectares of their farm. Member States have to use up to 2% of their national direct-payment envelopes to support young farmers.

The voluntary components are:

- First, a redistributive payment,³ whereby farmers may be granted additional support for the first hectares of their farm: up to 30% of the Member State direct-payment envelope.
- Second, additional income support in areas with specific natural constraints: up to 5% of the Member State direct-payment envelope;
Third, a specific support coupled to some production, granted to certain areas or types of farming in difficulties for economic and/or social reasons: up to 15% of the Member State direct-payment envelope.

Finally, a simplified system may be set up for small farmers, to replace all of the above components, with an annual payment of up to €1 250.

Table 2 shows the annual direct payment allocations for each Member State (in current prices), before and after transfer between pillars (according to Article 11 of Regulation No 1307/2013). In fact, Table 2 shows that 11 Member States moved part of their direct payment allocations to the rural development policy and four Member States increased their direct payments allocations using part of their rural development funds.

Table 2 – Annual direct payments allocation in 2015 for each Member State, before and after transfer between pillars. (In € billion, current prices)

<table>
<thead>
<tr>
<th>Member States (Calendar year 2015)</th>
<th>Before transfer</th>
<th>After transfer</th>
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<tbody>
<tr>
<td>France</td>
<td>7.55</td>
<td>7.30</td>
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<tr>
<td>Germany</td>
<td>5.14</td>
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<tr>
<td>Spain</td>
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<tr>
<td>Italy</td>
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<td>Poland</td>
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<tr>
<td>United Kingdom</td>
<td>3.56</td>
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<td>Greece</td>
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<tr>
<td>Romania</td>
<td>1.63</td>
<td>1.60</td>
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<td>Hungary</td>
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<td>Ireland</td>
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<td>Denmark</td>
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<tr>
<td>Malta</td>
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Market measures
Several market measures are embraced by the single Common Market Organisation, which accounts for €2.7 billion in the 2016 budget (in current prices). The first includes the rules on marketing of agricultural products (e.g. marketing standards, geographical indications, labelling) and the functioning of producer organisations, competition rules applicable to enterprises and the rules on State aid.

The second type of market measures contains general provisions concerning exceptional measures, including measures to guard against market disruption caused by price fluctuations or other events, market support measures in the event of outbreaks of animal diseases or a loss of consumer confidence owing to public, animal or plant health risks, and measures relating to concerted practices adopted in periods of serious imbalances in the markets.

A third typology includes specific sectorial programmes (for fruit and vegetables, wine, olive oil, school schemes).

A fourth typology of market measures includes a crisis reserve fund of €400 million per year (in 2011 prices) established to secure the financial resources needed in case of crisis in the agriculture sector, through deductions from direct payments, with unused amounts reimbursed to the same farmers in consecutive budget years (the 'financial discipline' mechanism). The amount of the crisis reserve in the agricultural sector, planned to be included in the Commission 2017 Draft Budget, accounts for €450.5 million (in current prices).

Finally, other typologies cover issues related to international trade (e.g. licences, tariff quota management, inward and outward processing) and competition rules.

Assessment of programme/actions
Since the 2003 CAP reform, one crucial point of the policy has been the definition of the direct payments beneficiary. The European Court of Auditors’ 2011 report recommended that the legislation on direct payments and its implementing rules should be amended to ensure that these payments are directed to active farmers and exclude beneficiaries who have no, or only insignificant, agricultural activities (the so-called 'sofa farmers'). Moreover, the Court suggested a more balanced distribution of direct support between farmers by further modulation of payments, or by capping higher individual payments, or by taking into consideration specific circumstances. These recommendations have been partially included in the current CAP. In 2013, a Commission evaluation report on the structural effects of direct support mentioned that payments decoupling has contributed to the migration of farms from less to more specialised types of farming between 2004 and 2009. Moreover, the greater freedom of decision related to decoupling of direct support has stimulated part of the holdings to focus more on production activities (crops and/or livestock) for which market conditions allow higher profitability, which has led to greater farm specialisation.

For the 2014-2020 Common Agricultural Policy a new Monitoring and Evaluation Framework has been set up to provide a sound analytical basis for future policy design by providing an understanding of the effectiveness of measures and interventions and the achievement of the objectives set, thus supporting policy developments. With further concern about the effectiveness of the new measures, a 2014 report, underlined how the ‘unprecedented’ flexibility of the new CAP could impact on the implementation of decisions taken at the national level. The report suggests that the main challenge for
future years will be the risk that 'greater flexibility in CAP implementation might start to undermine the "common" policy approach and generate an uneven playing field in terms of Europe-wide competitiveness'.

**Other EU programmes and action in the same field**

Because of the inter-sectoral nature of the CAP, various EU funding programmes deal with similar fields. While the **European Agricultural Guarantee Fund** (EAGF) finances the first CAP pillar, EU rural development policy is supported by the **European Agricultural Fund for Rural Development** (EAFRD). Four other EU funds can also provide support: the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund. These four, together with the EAFRD, are collectively known as the **European Structural and Investment (ESI)** funds. Each Member State concludes a partnership contract with the Commission, including a national strategic plan indicating investment priorities for the five ESI funds.

Additionally, **€3.8 billion** is allocated to the Fund for European Aid to the most Deprived people (FEAD) that supports EU Member State actions to provide material **assistance to the most deprived**, such as food, clothing and other essential items for personal use.

This briefing is part of the series 'How the EU budget is spent' and complements the briefing on **CAP pillar II** (rural development policy).

**Endnotes**


2 For an overview of international agricultural policies and instruments to tackle volatility, see Farm Europe, [How to tackle farm and price volatility for farmers? An overview of international agricultural policies and instruments](http://www.farmEurope.eu), 2016.

3 In order to redistribute support to smaller farmers, Member States may allocate up to 30% of their national budget to a redistributive payment for the first hectares. The number of hectares for which this payment could be allocated will be limited to 30 hectares, or the average farm size in Member States if the latter is more than 30 hectares. The amount per hectare cannot exceed 65% of the average payment per hectare.


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