Current priorities and challenges in EU agricultural policy

SUMMARY

The European Commission’s work programme for 2017 includes a commitment to progress and consult widely on the simplification and modernisation of the common agricultural policy (CAP). A public consultation exercise was launched at the beginning of February 2017 and closed on 2 May 2017. A number of stakeholder organisations and think tanks have issued their reflections on the future shape of EU agricultural policy post 2020. In the last reform of the CAP, the European Parliament had a key role to play in this process. Both the Parliament and the Council will have responsibility to legislate on the Commission’s proposals. A key role is performed by the Parliament’s Committee on Agriculture and Rural Development. Future discussions on these matters can therefore be anticipated.

The Maltese Presidency has identified a number of priorities to guide the discussion on future policy and also held a debate earlier in the year on the future of the CAP in the Agriculture Council. A communication is expected from the Commission before the end of 2017.

This briefing provides a short overview of these issues, along with a summary of the key elements of the current CAP, some key features of EU agriculture including the prospects for the main agricultural markets based on the Commission’s most recent agricultural outlook report. Recent developments in Council are also covered, and a number of stakeholder perspectives are highlighted.

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EPRS     Current priorities and challenges in EU agricultural policy

Background

With close to 40% of the EU’s budget devoted to it, the common agricultural policy (CAP) is also one of the EU’s longest standing policies. In total, the CAP has undergone five reforms, of which the most recent were in 2003 (mid-term review), in 2009 (the ‘Health Check’), and in 2013 for the 2014-2020 period. Each change has, however, added new dimensions to the policy. With the 2013 reform, new general objectives were set for the CAP, namely: economic (i.e. ensuring food security through increasing competitiveness); environmental (involving the sustainable use of natural resources and the fight against climate change), and territorial (ensuring economic and social diversity in rural areas).

Implementation of the current CAP began only in 2015, as 2014 was a transitional year. Experience of agricultural policy development shows that it can take up to three years to undertake a reform of such a policy. The Commission’s 2017 work programme includes provision for an exercise on the modernisation and simplification of the current CAP – this work has now commenced.

Current common agricultural policy 2014-2020

Previous EPRS briefings have provided overviews on the key features of the instruments which make up the current CAP, covering Pillar I (broadly, agricultural income and market support) and Pillar II (rural development). Both pillars contribute to the CAP’s general objectives. These are then broken down into specific objectives, as shown in figure 1.

Figure 1 – General and specific objectives of the CAP.

Source: European Commission.

The specific objectives and policy instruments for Pillar I are illustrated in figure 2. This demonstrates that direct payments contribute to farm incomes, improve competitiveness, and contribute to environmental public goods and climate change mitigation and adaptation. Market measures contribute to maintaining market stability.
A number of horizontal measures deal with organic farming and EU agricultural promotion policy, for example.

Figure 2 – Specific objectives of Pillar I

Source: European Commission.

Figure 3 illustrates the six policy priorities set for Pillar II. Two are aimed at improving competitiveness and farm viability, and improving the position of primary producers in the food chain, as well as risk management. Two other priorities contribute to the general objective of sustainable management of natural resources and climate. Another priority focuses on social inclusion, poverty reduction, and economic development. There is one overall priority to support knowledge transfer and innovation.

Figure 3 – Specific objectives of Pillar 2

Source: European Commission.

One further point to note concerns the flexibility which the current CAP offers Member States in the implementation of the CAP regulations. Under Pillar I, Member States can choose to introduce optional measures such as coupled support and payments to farmers in areas of natural constraint. In the case of Pillar II, Member States can choose the focus of the measures covered by the six priorities identified in figure 3. It is also possible to link the two pillars with each other – for example young and small farmers can be
supported through Pillar I and Pillar II interventions (see the European Commission study: Mapping and analysis of the implementation of the CAP, final report 2016).

**Key features of EU agriculture**
Within the above policy context and drawing on Eurostat, EU agriculture can be characterised as follows:

- there is a considerable diversity in agriculture across the EU in terms of farm size and types of farming;
- the vast majority of the 10.8 million farms in the EU in 2013 were relatively small, family-run farms, often passed down from one generation to the next;
- a long-term decline in the number of farms is coupled with a significant consolidation of EU agricultural production into a smaller number of farms;
- the number of regular agricultural workers has fallen from 25 million workers in 2010 to 22 million in 2013;
- in demographic terms, 31% of farmers in the EU are older than 65 years.

In addition to these structural features of EU agriculture, a recent report on the impacts of EU trade agreements on the agricultural sector makes the point that, today, the EU is 'broadly self-sufficient in most agricultural primary commodities', with important exceptions such as soya beans, maize, and rice. The EU has specialised in wheat, milk powder, and pigmeat.

**Agricultural outlook**
Towards the end of 2016, the European Commission hosted its 2016 EU Agricultural Outlook Conference, which affords a useful context for analysing key developments expected over 2017. This two day event provided a broad overview of the state of EU agriculture in the context of the global challenges which it faces. It coincided with the publication of the Commission's agricultural outlook report on prospects for EU agricultural markets to 2026.

In terms of arable crops, the cereal sector has declined within the EU in the past 20 years, but yields and production have increased even though, as the Commission has noted (p. 11), yields have shown declining growth rates. The Commission does not expect these trends to change in the coming decade.

In terms of the dairy sector, information from the Milk Market Observatory towards the end of January 2017 points to an upward trend in dairy product prices – which began in mid-2016. Several factors have supported this recovery, including: a rising world demand for cheese and butter; strong import growth in China; the withdrawal from the market via public purchases of around one-third of EU skimmed milk powder production; and the impact of the Commission's aid schemes, adopted in September 2016. The Commission has stressed that the magnitude of the recovery in EU milk and dairy product prices remains uncertain in the light of continued expansion of US production and, to a lower extent, EU production.

An earlier EPRS briefing noted the decline in beef prices in 2016. Around two thirds of EU beef comes from the dairy herd, and the continuous inflow of dairy cow slaughter has contributed to the fall in beef prices. The Commission forecasts that restructuring in the EU’s dairy sector will limit beef production potential, resulting in a new equilibrium, and pushing prices up after 2017. In the case of EU pigmeat prices, these had reached their lowest level since 2014 by March 2016. Price data since point towards a recovery in pigmeat prices reflecting export opportunities on the Asian market and an increasing
demand for pigmeat from China. Pigmeat prices increased during 2016, following two years of lower prices. The Commission expects EU prices to strengthen only slowly between now and 2026, due to sustained price competition with the USA and Brazil.

Overall, the EU has become the second largest exporter of agri-food products in the world, a point noted in the aforementioned report on the impact of EU trade agreements. The Commission’s expectation is that over the next 10-15 years, 90% of the additional world demand for agri-food products will be generated from outside Europe. This reinforces the value and importance of the EU’s agricultural promotion programmes.

Recent developments

Council

On 23 January 2017, the Maltese Presidency presented its work programme and its priorities in respect of agriculture at a meeting of the Agriculture and Fisheries Council. These are to monitor the situation of the markets and to make sure that the Council is regularly updated on ongoing trade negotiations. Other priorities included: emergency preparedness for plant and animal health; microbial resistance; as well as taking forward regulations on veterinary medicinal products and medicated feed. The need to facilitate progress with regard to the proposal for a new organic production regulation was also recognised. As Member States were unable to agree compromise proposals on the Commission’s plan to revise the EU’s regulation on organics (Regulation No 834/2007), the Maltese Presidency compromise text was welcomed by many delegations at the Special Committee on Agriculture (SCA) meeting on 20 February 2017. It was concluded that further modifications were needed regarding issues concerning pesticides, greenhouses, ending of derogations, and databases. Although Member State delegations could not agree on all issues, there was qualified majority support at the SCA meeting on 27 February 2017 for the Presidency to proceed with further trilogues.

Although subsequent trilogue meetings in March and May 2017 failed to produce agreement, progress was made on a number of technical issues. On 12 June 2017, the Council held an orientation debate on the legislative proposal. At this meeting, Ministers restated their commitment to finding an agreement. Member States have asked the Maltese Presidency to work on a compromise text that could be the basis of further discussions with the European Parliament. The Presidency will work on an updated text with a view to organising a further trilogue meeting by the end of June 2017.

Key issues discussed in the Agriculture and Fisheries Council have included an exchange of views on the omnibus proposal, and on the simplification of the CAP. The draft omnibus regulation includes a number of proposed changes which have the aim of further simplifying the CAP to the benefit of both farmers and national authorities (as shown in box 1). At its 3 April 2017 meeting, the Council delegations broadly supported the presidency compromise package (which sets out the suggested Council position on the agricultural provisions of the proposed regulation, and which includes two Commission statements in relation to the

<table>
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<th>Box 1 – Proposed changes included in the omnibus regulation:</th>
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<td>• sector specific income stabilisation tool in rural development regulation;</td>
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<td>• simpler rules for accessing loans &amp; other financial instruments;</td>
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<td>• greater discretion for Member States re definition of ‘active farmer’;</td>
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<td>• simpler and more flexible rules for young farmers;</td>
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<td>• changes to operational programmes in fruit &amp; vegetables sector;</td>
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<td>• simplified financial discipline procedure.</td>
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Commission’s proposal to add a sector-specific income stabilisation tool as part of the support for rural development, and a statement on capping). The Commission invited ministers to prioritise simplification in their decisions, to facilitate timely adoption of the regulation and its entry into force at the start of 2018.

At its meeting on 10 April 2017, the Special Committee on Agriculture (SCA) approved the Council position on the agricultural provisions of the omnibus proposals. (Both the Czech Republic and Poland entered statements. Welcoming the agreement on the compromise package, the Czech Republic felt it could have been more ambitious regarding support for young farmers. Poland felt that a number of amendments which were not incorporated in the compromise text deserved further consideration). In accordance with the ordinary legislative procedure, the omnibus proposal will have to be agreed both by the European Parliament and the Council.

The European Parliament’s Committee on Agriculture and Rural Development adopted its report on the agricultural provisions on 3 May 2017. A Council note explains that, although there are a number of similarities between the amendments included in the report and the Council’s position, there are a number of differences in relation to the definition of a young farmer, the ‘active farmer’ condition in the Direct Payments Regulation for example. The Committee’s amendments include a number of additional measures such as: the introduction of new provisions on ‘bargaining organisations’ to strengthen farmers’ contractual position, amendments to risk management tools to cover income stabilisation, natural disasters, mutual funds and insurance as well as changes to the greening rules. An annex attached to the Council’s note provides a detailed analysis comparing the draft amendments with the Council position. On 14 June, the European Parliament formally mandated its representatives to enter into negotiations with the Council and the Commission on the ‘omnibus’ regulation as a whole (i.e. not just the agricultural provisions). The overall Council position, and the negotiations with Parliament will be the responsibility of the General Affairs Council.

Following the Commission launch of a three month public consultation on the simplification and modernisation of the common agricultural policy on 2 February 2017, the Council invited ministers to share their ideas on the future of the CAP at the meeting of the Agriculture and Fisheries (AGRIFISH) Council on 6 March 2017. The Maltese Presidency prepared an orientation paper, ‘CAP post-2020’, to guide discussion at this meeting. Subsequent feedback at an AGRIFISH Council meeting on 6 March 2017, indicated that most delegations asked for adequate funding for the future CAP. Simplification was also highlighted as an overall priority for future policies. Other issues identified included: building resistance, responding to environmental challenges, investing in rural viability and vitality; ensuring generational renewal, maintaining a market orientation and strengthening farmers’ position in the food chain; risk management, and the role of innovation. Most delegations confirmed the validity of the pillar structure of the CAP. Some were in favour of putting more emphasis on rural development, whilst others warned against a reduction of direct support to farmers.

While some delegations asked for a 'progressive harmonisation' of direct payments in all EU Member States, several called on the Commission to maintain and even strengthen voluntary coupled support. Some also called for more flexibility between pillars at Member State level.

At its 3 April 2017 meeting, on the initiative of the Danish, Estonian, Finnish, Latvian, Lithuanian and Swedish delegations, the Council discussed the simplification of the CAP,
Box 2 – Reasons for modernisation and simplification of the CAP

- The Commission's work programme for 2017 includes a commitment to take forward and consult widely on the simplification and modernisation of the CAP.
- The complexity of the current legislation is recognised.
- A desire to reduce red tape for beneficiaries.
- Rapid changes in the wider policy environment for EU agriculture, for example the impact of price volatility.

Priorities and challenges

Consultation on the modernisation and simplification of the CAP

The Commission’s public consultation on the CAP involved an online questionnaire containing both multiple choice and open questions. Under the heading of objectives and governance, respondents were asked to indicate what should be the most important objectives of the CAP; and the level at which different CAP objectives should primarily be dealt with (i.e. at EU, national or regional levels). In the section on the future CAP, questions were included on: how the competitiveness of farmers could be improved; which actions could further improve EU export performance; which are the most relevant criteria when allocating direct support; and which environmental objectives should the CAP address? Rural development was addressed through questions on where the CAP should improve its contribution for rural areas, and how it can better help young farmers or other young rural entrepreneurs, and encourage innovation. The final section of the questionnaire focused on the theme of modernisation and simplification. Questions were included asking for concrete ideas for simplifying the CAP and reducing the administrative burden for farmers, beneficiaries (or public administrations); as well as ideas for modernising the CAP.

Possible policy options

The Commission has also published an inception impact assessment, which included a set of ‘possible policy options’. These ranged from options 1 and 2, involving scenarios of no policy change and no policy respectively, to a series of options based on different sets of policy instruments. Option 3 would have a focus on risk management and investments in restructuring and business development in agriculture and rural SMEs. Option 4 would aim to link farm practice more effectively to EU-wide environmental/climate action targets. Option 5 would involve a strong redistribution of support from larger to smaller, and environmentally friendly, farms.
Further insight into the future direction arising from this exercise for the CAP is outlined in Commissioner Hogan’s speech at a Farm Europe event on 7 February 2017. Three priorities in respect of the simplification and modernisation agenda were identified: (i) the Commissioner’s desire to maintain basic income support and an effective safety net through direct payments; (ii) the principle of a more sustainable system of agricultural production; and (iii) progress on generational renewal. In respect of direct payments, Hogan indicated that, without such payments, ‘the viability of perhaps tens of thousands of farmers would be seriously compromised’. Figure 4 illustrates the dependence of EU farms on public support. Although the EU average share of direct payments in agricultural factor income in 2010-2014 stood at 28%, there are considerable differences between Member States. These range from 15% or less in Cyprus, Malta, the Netherlands, and Romania, to more than 40% in Ireland, Luxembourg, Slovakia, and Sweden. Commissioner Hogan’s speech also highlights the role of farming in addressing climate change, and the issue of generational renewal.

**European Parliament**

As was the case with the previous CAP reform, the role of the European Parliament and the Council will be critical for the future of any proposals that emerge from the consultation and any subsequent communication from the Commission. Both the European Parliament and the Council will have responsibility to legislate on the Commission’s proposals.

Parliament has adopted several own initiative reports which relate to the CAP and which have implications for the future direction of agricultural policy. In support of this work, a key role is performed by the Parliament’s Committee on Agriculture and Rural Development (AGRI). Future discussions on these matters can therefore be anticipated.

During the first quarter of 2017, the AGRI Committee has been actively engaged in examining a range of issues. In addition to issues already discussed, such as the omnibus regulation, organic farming, and simplification, discussions have also covered: the Commission's plan to ban pesticides in Ecological Focus Areas; access to land for farmers; ways to reduce food waste; the Brazilian meat scandal; the findings of a study (undertaken at the Committee’s request) on the consequences of climate change policies
for EU agriculture, as well as a presentation from the European Court of Auditors on its special report on spending on climate change.

**Advisory committees**

Both the European Committee of the Regions (CoR) and the European Economic and Social Committee (EESC) have a continuing interest in CAP reform. The CoR has adopted four opinions relevant to the ongoing debate on the CAP. These concern: (i) the simplification of the CAP (adopted on 13 October 2015); (ii) innovation and modernisation of the rural economy (adopted on 10 February 2016); (iii) the regulation of price volatility of agricultural products (adopted on 7 December 2016) and (iv) supporting young European farmers (adopted on 8 February 2017). Together, these provide an insight into the types of issues that are likely to be raised in the Commission’s consultation exercise. A draft CoR opinion on the future of the CAP after 2020 was discussed at the Commission for Natural Resources on 1 June 2017 (CoR rapporteur Guillaume Cros (PES, France)). This work formed part of the proceedings of a CoR conference on ‘How the future CAP can cope with goals set out in the Juncker investment plan to relaunch growth and jobs in Europe’, held on 8 March 2017. The conference sought to launch a political momentum for debating all aspects of the future CAP from both local and regional perspectives.

The EESC has already adopted a number of opinions on agricultural and rural development issues. These include: the main underlying factors that influence the Common Agricultural Policy post-2020 (involving a hearing in Helsinki on 25 October 2016, organised jointly with the Parliament of Finland), rapporteur Simo Tiainen (Various interests – Group III, Finland); CAP simplification, rapporteur Seamus Boland (Various interests – Group III, Ireland); and concerning Rural development programmes – sticking plasters or green shoots of recovery?, rapporteur Tom Jones (Various Interests – Group III, UK). Two EESC own-initiative opinions are in preparation, namely on the follow-up to the Cork 2.0 Declaration: From Cork 2.0 Declaration to concrete actions, rapporteur Sofia Björnsson (Various interests – Group III, Sweden); and one on Villages and small towns as catalysts for rural development – challenges and opportunities, rapporteur Tom Jones (Various Interests – Group III, UK). A public hearing on villages and small towns took place on 14 February 2017, as well as one on ‘A better life in rural areas: from Cork 2.0 Declaration to concrete actions' on 3 May 2017. Both opinions are scheduled for adoption by the EESC plenary on 5 and 6 July 2017. On 9 November 2016, the EESC and CoR organised a joint conference on Cork + 20: Leaving rural areas behind is no longer an option, to discuss the current state of rural areas, twenty years after the first Cork declaration, as well as to urge the three main EU institutions to come up with concrete measures on how to implement 'rural proofing' of all EU policies. An exploratory opinion on A possible reshaping of the CAP (rapporteur John Bryan, Various interests – Group III, Ireland) was drawn up for the European Commission, at the request of Vice-President Frans Timmermans. Adopted at the Committee’s May plenary session, the opinion provides the EESC’s contribution to the Commission’s consultation exercise.

**Stakeholder perspectives**

A range of stakeholder organisations and individuals have already published or issued statements setting out their views and concerns on future agricultural policy.
Farm Europe presented its final report of the Global Food Forum, in February 2017. A set of key actions are outlined, including: the need for a set of efficient risk management tools to enhance the resilience of the wide range of EU agriculture models; a new deal across the food chain, involving contractual relations on the basis of clearer rules enabling collective contract negotiations at producer organisation level, including encouraging cooperation among farmers and producers; a shift from a prescriptive policy towards a real results-based policy, which would complement current greening criteria; a renewal of the economic dimension of the CAP, a more harmonious and positive relationship between diet and health through, for example, greater scientific consensus to avoid confusion among consumers and legislation. Farm Europe's paper makes reference to the impact of Brexit for the overall EU budget. Farm Europe calls for the EU agri-food sector to improve its competitiveness through more and better targeted investments.

COPA-COGECA has called for a strong, common, and adequately financed CAP. Underlining the importance of maintaining both pillars, it has argued that current measures to cope with market volatility – direct payments, market safety nets and risk insurance – need to be 'speedier both in their activation and their results'. In COPA-COGECA's view, risk management must be further developed in a future CAP, to deal not only with climatic risks but also market risks.

To coincide with a meeting of the Agriculture and Fisheries Council on 6 March 2017, over 150 European civil society organisations and NGOs together produced a civil society common statement demanding better food and farming policies for Europe. The signatories, which include the Agriculture and Rural Convention (ARC2020), called the functionality of the current food and farming system into question, while demanding fundamental reform of the EU's agricultural policy.

At the end of March 2017, the RISE Foundation launched a report entitled 'CAP: thinking out of the box, further modernisation of the CAP, why, what and how?'. Recognising that the next 15 years will see a generational turnover amongst farmers, the CAP is seen as having a key role in assisting the transformation of European agriculture. The authors of the report consider the current system of direct payments to be 'ineffective, inefficient and inequitable'. As such, they recommend that the payments should be systematically reduced and resources switched to targeted assistance, including transitional adjustment to help farmers improve productivity, resource efficiency, and risk management, and to pay farmers to provide specific environmental and other public goods. More detailed recommendations are made in respect of: (i) land management – through different tiers of support for example; and (ii) risk management instruments – where the authors view the current system of direct payments as 'crowding out' the deployment of risk management measures.

Outlook

The Commission's public consultation closed on 2 May 2017. The initial results of the consultation will be presented at a stakeholder event in Brussels on 7 July 2017. The Commission received in excess of 320 000 online responses from all EU Member States. This also included over 1 400 position papers. The vast majority were submitted by individuals. A legal proposal on the future CAP would follow the publication of the Multiannual Financial Framework in the spring of 2018. It is expected that the Commission will publish a communication possibly in late November 2017. This will include conclusions on the current performance of the CAP, as well as 'potential policy options for the future'.
Looking to the future, Estonia will hold the Presidency of the Council of the European Union for the first time, from July to December 2017. In terms of agricultural policy, the indications are that the most important topics for Estonia’s Presidency will be the future of the CAP and its simplification, as discussions are due to begin during this period. Other issues will include: monitoring of the agricultural markets, antimicrobial resistance, and the protection of soils, as well as developments relating to fertilisers, medicated feed, and better functioning of the food chain.

Further reading


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