



EUROPEAN PARLIAMENT

2009 - 2014

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*Committee on Agriculture and Rural Development*

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01.03.2010

# **WORKING DOCUMENT**

on The Future of the CAP after 2013

Committee on Agriculture and Rural Development

Rapporteur: George Lyon

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PE439.305v01-00

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*United in diversity*

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## **The drivers and context for a new CAP**

The Common Agricultural Policy has been largely successful in fulfilling the objectives it was set out to accomplish so far. The CAP for the past 50 years has increased productivity, contributed to a fair standard of living for the agricultural Community, stabilised markets, secured the availability of supplies and provided consumers with food at reasonable prices. The CAP of the future will have to face new and pressing challenges and has to provide a framework for the future based on stability, predictability and flexibility in times of crisis.

The CAP will have to adapt to a changing European and global context. First and foremost, European agriculture must ensure food security to consumers and help feed a steadily growing world population. To be part of the solution to climate change, it will have to deliver more food with less land, less water and less energy. Moreover, the CAP has to adapt to an increasingly unstable economic environment: the world financial and economic crisis as well as recent extreme price volatility have severely affected farmers and the viability of the entire agricultural sector.

The changing EU institutional architecture and the definition of new political priorities are the background for the CAP reform debate. Firstly, agriculture must define its role within the new Strategy 2020 and actively contribute to the European response to the economic and financial crisis. The CAP must also take account of the changes foreseen in other EU policies, such as the cohesion policy and the debate on the competitiveness of the agri-food sector. Most importantly, agriculture will have to defend its share of the EU budget, in the context of the Budget Review and the definition of the new financial perspectives to come. Last but not least, your rapporteur expects that, in the context of the implementation of the new Lisbon Treaty provisions, the European Parliament takes its new responsibilities as co-legislator in agricultural matters seriously, while Commission and Council are expected to work more closely, in good faith and equally with parliamentarians on this particular dossier.

To that aim, your rapporteur intends to use as efficiently as possible the new possibilities offered by the new institutional context. He will defend the key role to be played by Parliament and Comagri in particular, while adopting a flexible approach to policy-making, with emphasis on proportionality, subsidiarity, and the possible use of reinforced cooperation where Member-States find it hard to speak in one voice.

In this context, Parliament will put forward a vision for a sustainable European model of agriculture which responds to new challenges while backing the fundamental objectives of EU food security, a balanced and diverse rural development across the EU territory, and the defence of the family-farm structure.

## **The structure of the first INI-report on the future of the CAP - key elements:**

### **1- The evolution of the CAP: from market-distortion to market-orientation**

In this section, your rapporteur would like to make clear that the CAP has been largely successful so far in delivering the objectives it was assigned over the reforms. Indeed, the various reforms have brought to an end the so-called 'milk lakes' and 'butter mountains'<sup>1</sup>, by reducing market-intervention, European agriculture does not dump its products on world markets anymore, and it has now made a resolute move away from heavy price and production support with the introduction of decoupled direct aids for farmers, in line with WTO requirements. It will also be recalled that Pillar II objectives are now an integral part of the CAP, most in line with societal demands and recognising the multi-functional role of EU farmers<sup>2</sup>.

It should also be pointed out that the CAP share of the EU budget has been cut from 75% to around 40% today<sup>3</sup>, representing no more than 0.45% of total EU GDP expenditure<sup>4</sup>, while the number of farmers has doubled with the accession of the 12 new Member States.

### **2- The challenges a CAP post-2013 must respond to**

Your rapporteur, in this section, proposes to highlight the main challenges a future CAP will have to respond to:

- Food security with the growing world population (from 6 to 9 Billion by 2050) and the associated growing demand for food, especially from emerging countries, against the background of greater pressure on the environment (land, water, energy)
- EU agriculture vulnerability to the impacts of Climate Change and the deterioration of the environment over time
- Economic crisis as an immediate challenge (lack of access to credit, constraints on public spending, increasing unemployment)
- EU consumers' high expectations for food quality, animal welfare standards, and good value for money
- EU ageing rural population and the threat of land abandonment and rural depopulation
- Growing market price volatility and the global energy crisis

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<sup>1</sup> See graph 2 annexed: 'EU surpluses over time (1991-2008) for wheat, beef, butter'

<sup>2</sup> See graph 1 annexed: 'Evolution of the CAP expenditure and CAP reform path'

<sup>3</sup> See graph 3 annexed: 'Percentage of CAP expenditure in EU Budget'

<sup>4</sup> See graph 4 annexed: 'Percentage of CAP expenditure in EU GDP'

In the light of these challenges, your rapporteur believes that a strong, sustainable, well-supported and credible multi-functional food policy will provide answers to both rural communities and the wider society.

Your rapporteur would like to hear the views of the members of the Comagri on this, in order to ensure an exhaustive and well-prioritised list of challenges to be taken into account.

### **3- The need for a strong CAP post-2013**

#### **A. Supporting economic needs**

Your rapporteur believes that a solid EU common agricultural policy is needed to ensure:

- A competitive EU agriculture on world markets
- EU food security in an unstable world context
- The valuable contribution EU agriculture and the downstream agri-food sector make to EU growth and employment
- Corrections to market failures such as exposure to natural disasters, high risk and price volatility, lack of demand elasticity, farmers' position as 'price takers' in the food chain, etc.
- A well-functioning Single Market and a level playing-field for farmers to operate under fair competition conditions in the EU market

#### **B. Responding to social concerns**

Your rapporteur also believes that the social dimension of the CAP must continue to address the following major concerns:

- Lower income than the EU average for farmers in most member States<sup>1</sup>, and decreasing farmers' income (average -12.2% last year in EU-27)<sup>2</sup>
- The need for a sustainable, dynamic and balanced socio-economic development of the European rural communities when agriculture remains the main land cover occupying 47% of the EU territory
- The need to attract young generations in rural areas and activities, and tackle rural unemployment

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<sup>1</sup> See graph 5 annexed: 'farmers' income compared to average income across member States'

<sup>2</sup> See graph 6 annexed: 'Change in real agricultural income per worker in 2009 compared to 2008'

### C. Delivering benefits in terms of Public Goods

Your rapporteur believes that farmers should be recognised as main providers of Public Goods that the market fails to reward them for, and should be encouraged in their pursuit of a more sustainable future, higher quality production, and better animal welfare conditions. Their function of landscape managers should be duly recognised as contributing to the European great cultural value and diversity.

Your rapporteur also shares the view that farmers should be rewarded for delivering more environmental benefits in the future (such as soil preservation and restoration, quality water management, preservation of farmland biodiversity). They should also be incentivised – technically and financially – to mitigate the impacts of Climate Change by reducing their GHG emissions, improving carbon soil sequestration, using more renewable energy sources and exploiting the potential of biomass and biowaste for energy production.

Your rapporteur wants to recall at this stage that the costs of the CAP are nothing in comparison to the social, economic, and environmental costs of a left-alone European agriculture which will never be able to address future challenges in an appropriate manner. Only a strong and well-supported CAP can deliver such diverse positive externalities.

#### 4- Looking ahead: future CAP priorities

Your rapporteur, in this section, aims at defining and articulating the main priorities for a **'fairer, greener and more sustainable' CAP in the future**. The following priorities could be articulated as such:

- EU food security, safety and quality at the heart of the future policy design
- Competitiveness of EU products in the world as a fundamental objective
- A fairer CAP:
  - Fair standard of living for farmers and fair return for consumers,
  - Strengthened market power for producers in the food supply chain,
  - Market volatility management and rapid action tools for potential crises,
  - Fair treatment for farmers in all member States in the context of the budget review, when deciding on the size (the current budget amount should be kept) and the national allocation of the budget
- A greener CAP:
  - Maximisation of the delivery of environmental goods,
  - More sustainable use of scarce resources to improve production efficiency,
  - Realising agriculture's potential to tackle Climate Change
- Strengthening of rural communities by creating more jobs opportunities
- A Common policy to ensure a well-functioning Single Market and address the cross-border dimension of food supply, climate change, high food standards

- An outcome-driven future CAP, with special attention for simplification and reduced administrative burdens

Your rapporteur would be very grateful for views and inputs from the other members of the Comagri on the proposed priorities.

### **5- Shaping the CAP of the future: potential scenarios**

Your rapporteur would like to exchange views with the members of Comagri on a number of fundamental choices which will have to be made:

- A fair basis for the calculation of the Single Farm Payments' allocation to member States: what are the objective criteria that should be used?<sup>1</sup>
- SFP delivery mechanisms: should we move to the same basis for making the payments (historic to area)? If so,
  - How long should be the phasing-in period?
  - Do member States need extra-flexibility to accommodate their particular national priorities?
  - Measures to deal with 'sofa farmers'?
- Simplification, clarity and legibility of the policy structure – how to best link the different instruments and elements of the future CAP?
- What system for market measures – do we need new instruments? What would be the preferred new tools?
- How to re-shape Rural Development for a better delivery, broader outcomes, and more targeted results?
- Should climate change be present across the policy?
- Should any aspects of rural development be transferred to Cohesion policy?

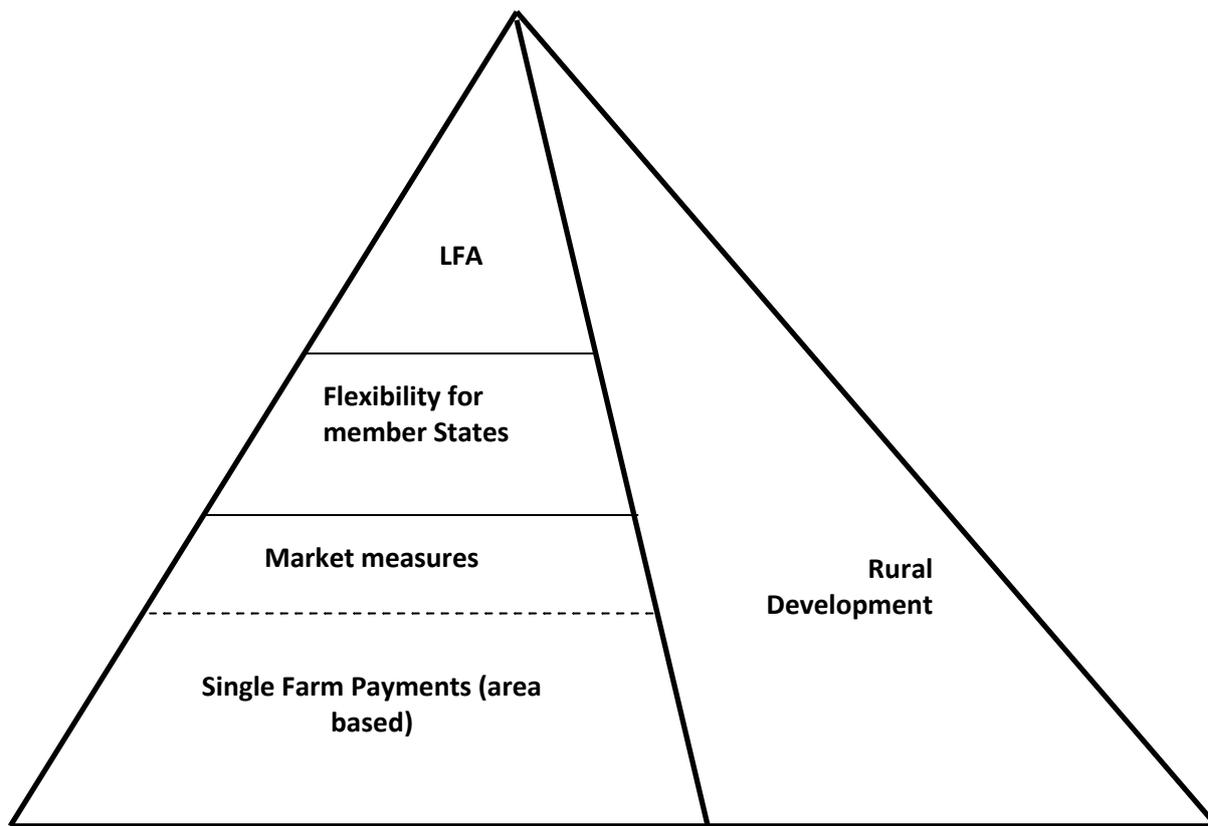
In the light of these questions, your rapporteur puts forward a draft model to help facilitate the discussion. He would very much like to hear your opinions on the draft below:

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<sup>1</sup> See graph 7 and figure 8 annexed: 'Direct payments per member States, average per hectare, 2008' and 'Options chosen for SPS implementation in Member States'

**A FAIRER, GREENER, AND MORE SUSTAINABLE EUROPEAN COMMON  
AGRICULTURE POLICY**

*(Built upon objectives and new challenges)*



## I. Direct support

<p style="text-align: center;"><b>Single Farm Payments - Area based payments with basic Cross-compliance</b></p> <p><i>(International competitiveness, territorial cohesion, food production, fight against land abandonment, income support with basic Public goods delivery)</i></p> <p>Community finance</p>
<p style="text-align: center;"><b>Market measures - Safety nets</b></p> <p><i>(Volatility management, crisis cushion)</i></p> <p>Community finance</p>
<p style="text-align: center;"><b>Contractual top-ups - flexibility for MS</b></p> <p><i>(Functioning of the food supply-chain, Greening the CAP - Climate Change measures improving production efficiency and grassland payments, limited use of coupling for specific livestock areas)</i></p> <p>Community finance</p>
<p style="text-align: center;"><b>Less-Favoured Areas</b></p> <p><i>(Maintenance of activity in natural handicapped regions, agriculture diversity, fight against land abandonment and depopulation)</i></p> <p>Co-financing</p>

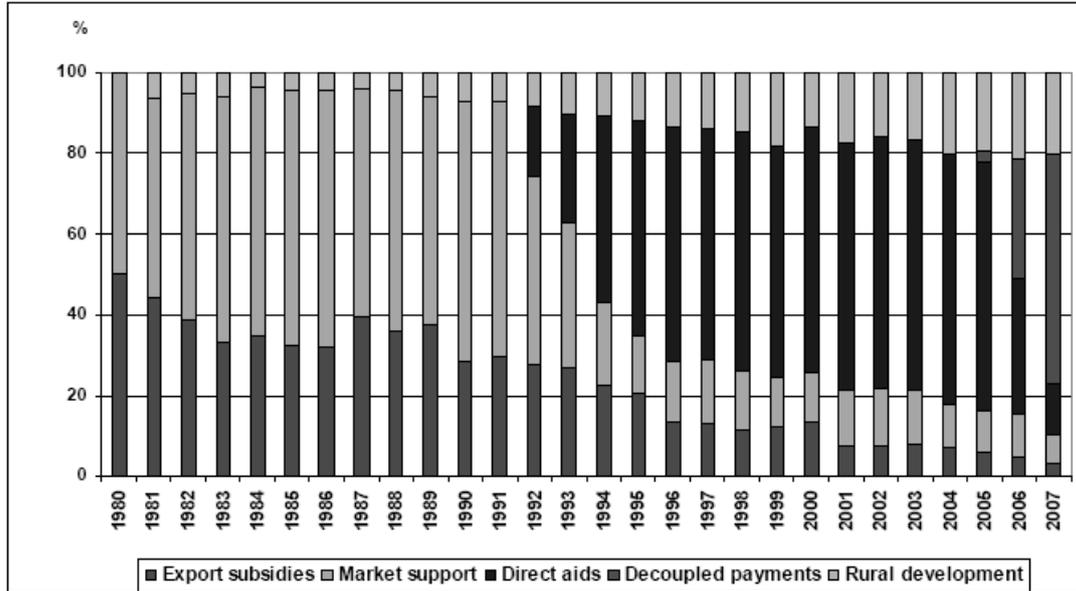
## II. Rural development

<p style="text-align: center;"><b>Rural development</b></p> <p style="text-align: center;"><b>- GREEN GROWTH BANNER -</b></p> <p><b>Targeted approach on environment and Climate Change</b></p> <p><b>Working towards territorial contracts and outcome agreements</b></p> <p><i>(Rural communities' vitality, young farmers, environmental public goods, green energy (biomass and biowaste), quality policy, organic production, diversification, quality of life)</i></p> <p>Co-financing</p>
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**Common, simple, flexible regulatory framework**

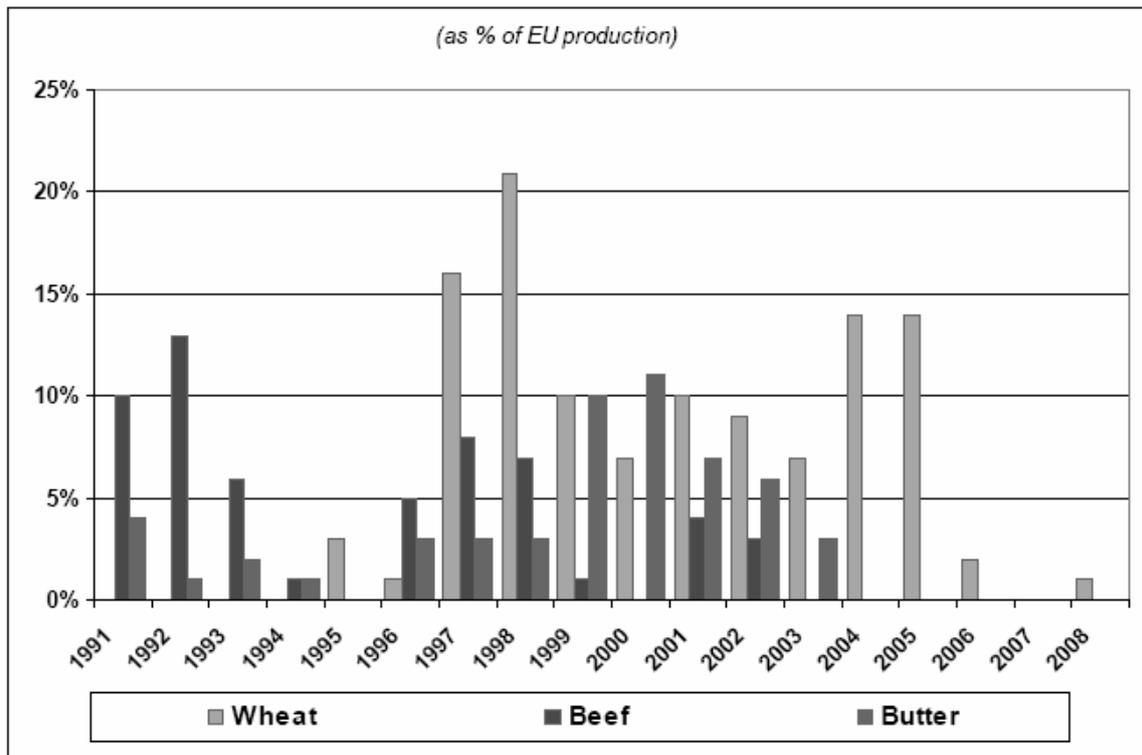
## Annex

**Graph 1: Evolution of CAP expenditure and CAP reform path**



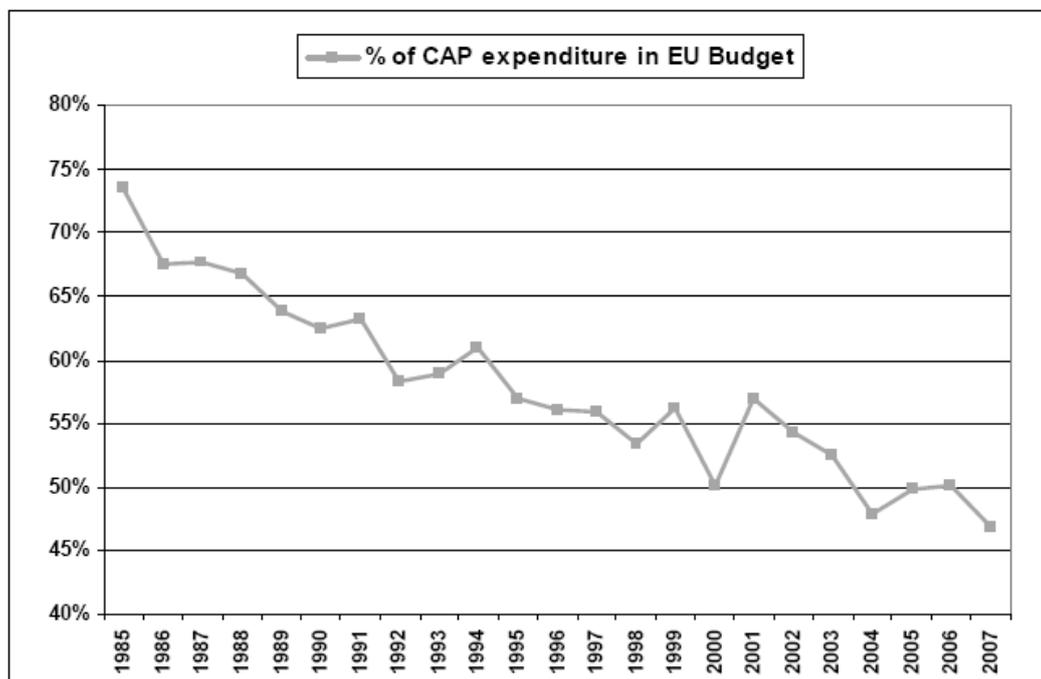
Source: European Commission, DG AGRI, Discussion Paper December 2009 – Why do we need a Common Agricultural Policy?

**Graph 2: EU surpluses over time(1991-2008) for wheat, beef, butter**



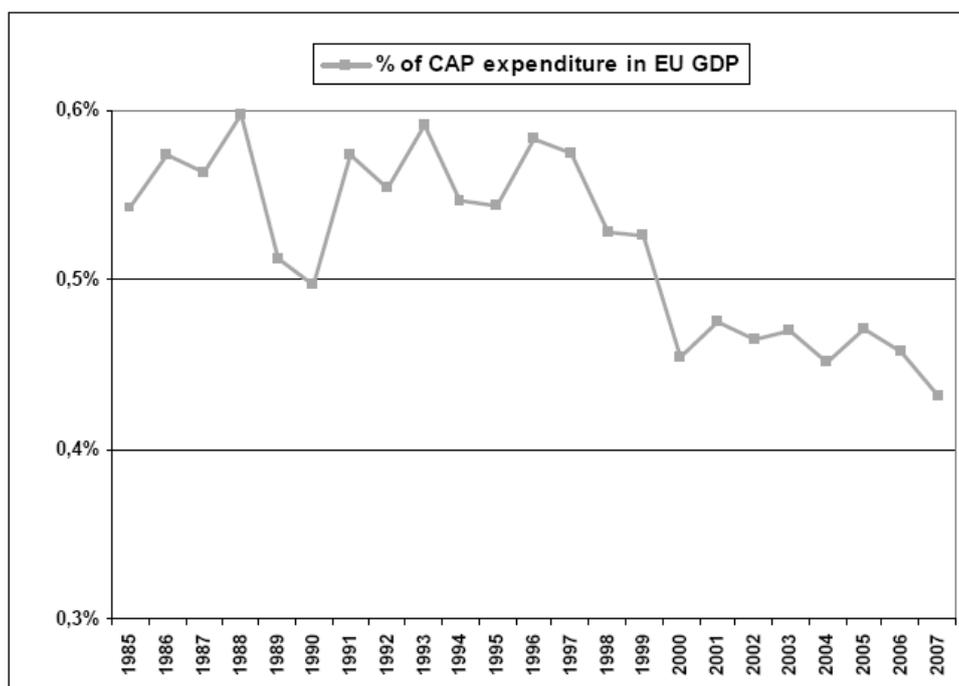
Source: European Commission, DG AGRI, Discussion Paper December 2009 – Why do we need a Common Agricultural Policy?

**Graph 3: Percentage of CAP expenditure in EU budget**



Source: European Commission, DG AGRI, Discussion Paper December 2009 – Why do we need a Common Agricultural Policy?

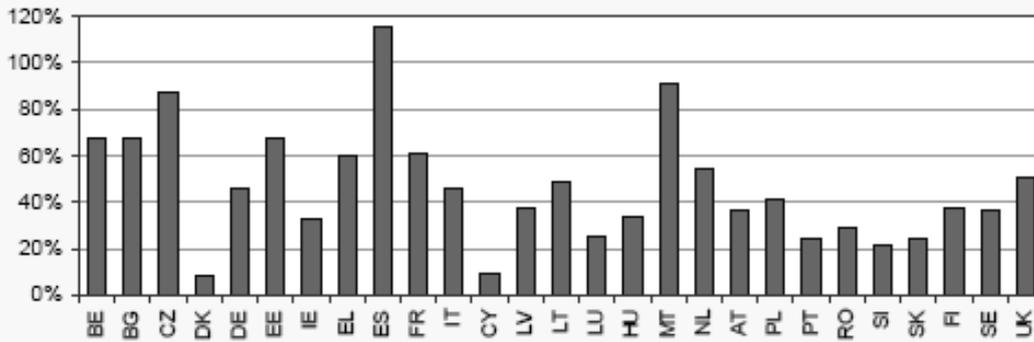
**Graph 4: Percentage of CAP expenditure in EU GDP**



Source: European Commission, DG AGRI, Discussion Paper December 2009 – Why do we need a Common Agricultural Policy?

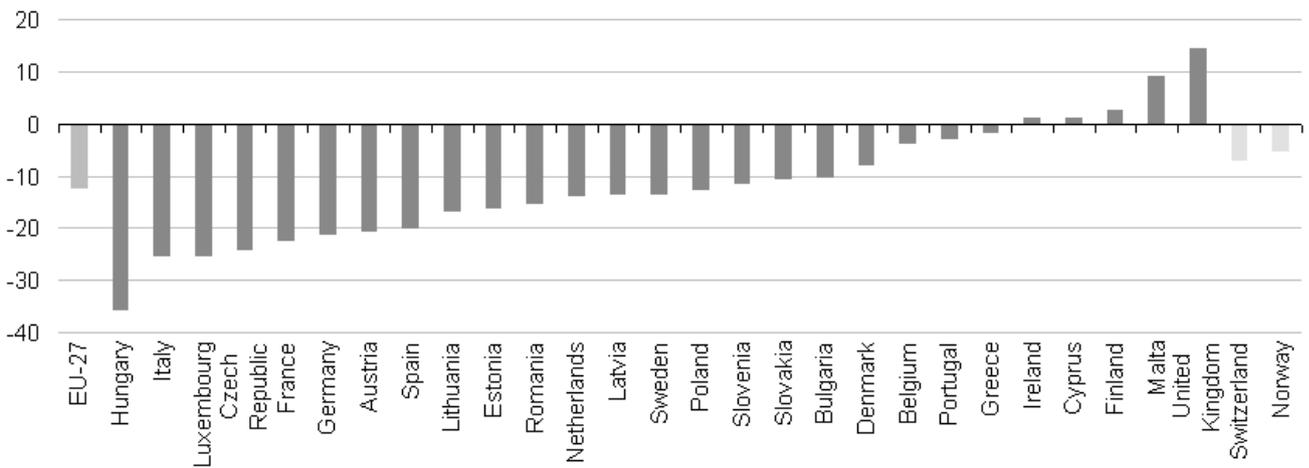
**Graph 5: Farmers' income compared to average income across member States**

Figure 4: Agricultural income as a share of average income in the economy per Member State (2005-2007 average).



Source: DG Agriculture and Rural Development, based on Eurostat data on national and agricultural accounts.

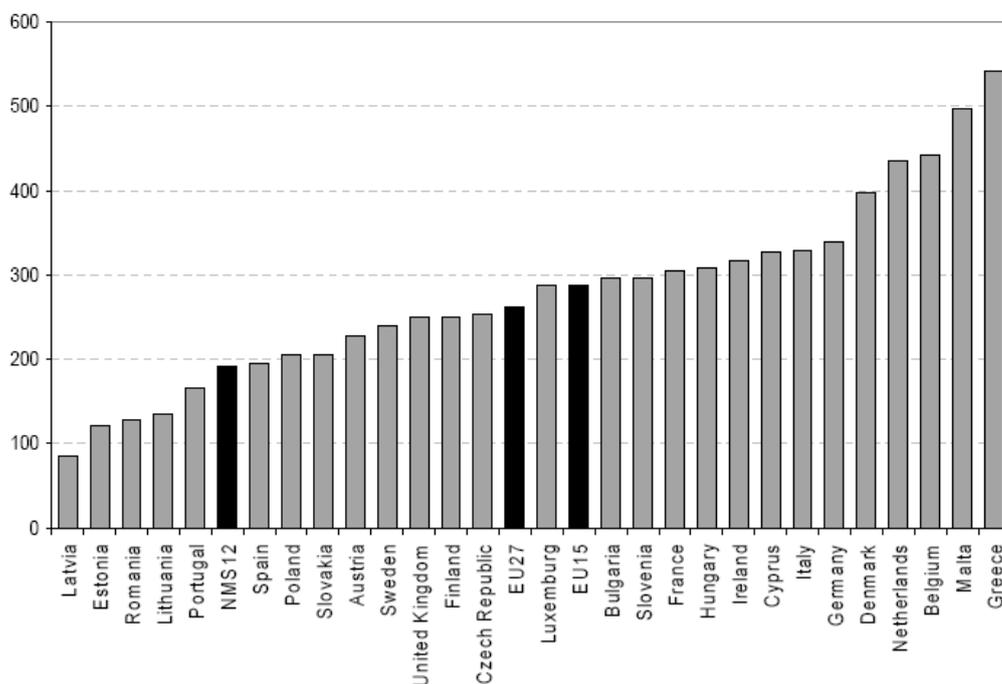
**Graph 6: Change in real agricultural income per worker in 2009 compared to 2008 (percentage) per MS**



Source: Eurostat, graph created with data from December 2009

**Graph 7: Direct payments per member States, average per hectare, 2008**

Figure 1: Average direct payment per MS (in € per hectare)



Source: Directorate General for Internal Policies, Policy Department B, Note for the workshop on the future of the CAP 2013 - 'Elements of the post-2013 CAP'

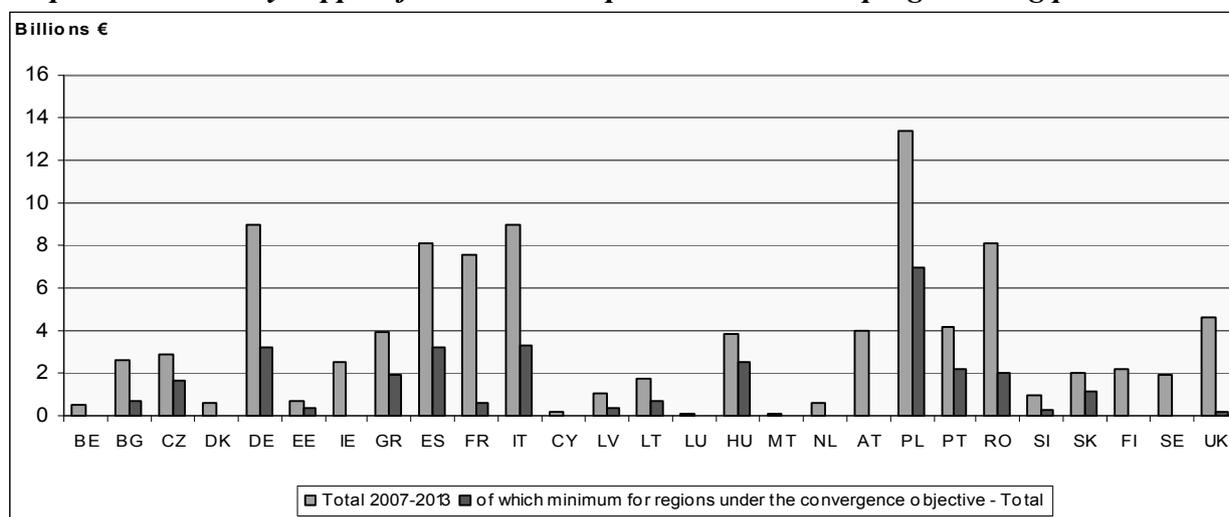
**Figure 8: Options chosen for SPS implementation in Member States**

Member State	Regions	Model
Belgium	Two regions: Flanders + Brussels, Walonia	SPS, historical
Denmark	One region	SPS, dynamic hybrid moving to flat rate
Germany	By Bundesländer	SPS, dynamic hybrid moving to flat rate
Greece	-	SPS, historical
Spain	-	SPS, historical
France	-	SPS, historical
Ireland	-	SPS, historical
Italy	-	SPS, historical
Luxembourg	One region	SPS, static hybrid
Netherlands	-	SPS, historical
Austria	-	SPS, historical
Portugal	-	SPS, historical

Finland	Three regions based on reference yield	SPS, dynamic hybrid moving to flat rate
Sweden	Five regions based on reference yield	SPS, dynamic hybrid moving to flat rate
United Kingdom	England (three regions according to soil)	SPS, dynamic hybrid moving to flat rate
	Scotland	SPS, historical
	Wales	SPS, historical
	Northern Ireland	SPS static hybrid
Bulgaria	-	SAPS
Czech Republic	-	SAPS
Estonia	-	SAPS
Cyprus	-	SAPS
Latvia	-	SAPS
Lithuania	-	SAPS
Hungary	-	SAPS
Malta	One region	SPS, regional model
Romania	-	SAPS
Poland	-	SAPS
Slovenia	One region	SPS, static hybrid model
Slovakia	-	SAPS

Source: European Commission, DG Agriculture D.1.

**Graph 9: Community support for rural development - 2007-2013 programming period**



Source: European Commission, DG AGRI, Rural development