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Edited by Benon Gaziński

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Philippe Burny

Reforming the Commom Agricultural Policy. Perspective of 2013 and Beyond

1. Introduction

This paper deals first with the history of the Common Agricultural Policy, its goals, principles and tools.

In the second part, it deals with the future: what are the main topics which are discussed and could define the guidelines of the CAP after 2013.

The evolution of the CAP is permanent and is following the evolution of European society in general. Its goals and tools are adapted to European citizens' expectations about agriculture[1].

The future is never certain, but the main items which will influence the future are presented below.

2. History of the CAP

The Common Agricultural Policy is strongly linked to the creation and the development of European institutions since the beginning.

As agriculture in Europe was backwarded compared to industry and to agriculture in new countries like the United States or Australia, it was decided that public authorities would invest significantly in this strategic sector of the economy. It was such for the first time in history.

The goals of the Common Agricultural Policy were clearly defined in the article 39 of the Treaty of Rome, signed on March 25, 1957,

[1] J. Champi, pseudonyme collectif, *Quelle politique agricole pour l'Europe* ? Economie rurale 300, juillet–août 2007.

which founded the European Economic Community (EEC), after the creation of the Steel and Coal European Community and Euratom.

2.1 The goals of the CAP

These goals were – and still are – the five following ones:

1. To increase the productivity of production factors used in agriculture, mainly the labour force.
2. To increase farm income (as a mean, farm income was – and is still – lower than the mean wages in other sectors of the economy; this phenomenon is called "external disparity", as there is also an important "internal disparity" within agriculture).
3. To stabilize agricultural markets,

The demand of agricultural products is relatively constant all over the year, and people have minimum food requirements every day and are also limited by the "stomach wall". This phenomenon is also called "the inelasticity of demand". On the other hand, the quantities which are produced and available on the market are much more variable through the year (harvest only in summer for cereals for example) and year by year (depending on climatic and economic conditions).

As a consequence, prices on the market are also very variable. M. King, Scottish real estate manager in the 17th century already observed that small shortages in the production of cereals had skyrocketing prices as a consequence, and small overproduction made prices collapse as a consequence, and overreactions of prices to production variations is now called "the King effect".

This prices instability is not good for investment and economic development in general. So, it can be justified that public authorities intervene on the market in order to stabilize prices.

4. To guarantee agricultural products provisions

The authorities must guarantee that citizens and enterprises will have enough agricultural products at their disposal according to their needs.

As the six founders of the EEC were not self-sufficient, this can be reached by increasing production and/or imports.

5. To guarantee reasonable prices to the consumers – agricultural products, and mainly food products of course, must be available in appropriate quantity and quality for the whole population. Prices paid by the consumers must be as low as possible.

2.2 Principles of the CAP

For the implementation of the CAP, three principles were also defined[2]:

1. Market and institutional prices unity

The EEC agricultural market is unique; borders between Member States are abolished for agricultural trade.

Quality standards (like the "EUROP" – and later "SEUROP" quality classification for bovine carcasses) and sanitary legislation are harmonized.

The prices decided by the Council of Ministers (intervention prices, threshold prices, target prices, ...) are valid within the whole territory of the Community.

So, agriculture was a pioneer concerning free trade within the EEC borders.

2. Financial solidarity

The contributions of the Member States to the European budget is linked to their wealth.

On the other hand, expenses are spent according to the policy agreed upon.

As a consequence, some countries can be net benefiters or net contributors, more or less. This situation can last several years or decades.

3. Preference for EEC products

As far as trade is concerned, the Member States and their economic actors prefer to deal with EEC partners rather than non – EEC partners.

There is no formal obligation to do so and this principle is rather theoretical.

2.3 Tools of the CAP

To implement the CAP, the main tools were.

1. Guaranteed (intervention) prices

Intervention prices were defined yearly for the main agricultural products: cereals, bovine meat, milk, sugar,... When the market prices go below intervention prices decided by the Council of Ministers, the

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[2] A. Ledent et Ph. Burny, *La politique agricole commune. Des origines au 3e millénaire*, Les presses agronomiques de Gembloux, 2002.

Member States; through determined institutions, buy some quantities of agricultural products on the market in order to increase prices above the intervention level. The products are stocked, and when the market prices are higher, the Member States sell the stocks on their markets, so that the prices go down.

Thanks to this practices, market prices are less variable than it is the case on completely free markets. The difference between the highest prices and the lowest ones is becoming smaller.

2. Threshold prices

As minimum prices on the EEC market are defined, imports could increase dramatically if the world prices at the borders of the EEC are lower than intervention prices.

So, it is necessary in this case (which happens most often, but not always), to protect the EEC market. It is why minimum import or "threshold" prices were defined at the EEC borders. In order to reach their level, a variable tax or "levy" is added to the import price.

3. Target prices

These prices are more theoretical. They are the "ideal" prices which should be reached in the market to be fair for farmers, and as the result of agricultural policy.

2.4 Consequences of the initial CAP and successive refoms[3]

This policy was a real success, production increased dramatically and the EEC rapidly became selfsufficient and later structural overproduction was observed for the main productions. So, stocks became very important (as much as 40 million tons of cereals for example, "mountains" of butter, ...) and export subsidies became very costly. At the same time, the use of inputs increased significantly and some damages to the environment began to appear.

So this policy lasted till 1992, when the first deep reform, the Mac Sharry reform, was decided, consisting mainly in the decrease of intervention prices and the introduction of direct payments to farmers in order to compensate supposed income losses (as market prices generally go down when intervention prices decrease).

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[3] V. Chatellier, *L'avenir de la PAC après 2013. La réforme des mécanismes de régulation des marchés*, Direction générale des politiques internes de l'Union, Parlement européen, 2009.

After that, the CAP was reformed again several times: Agenda 2000, Mid-Term Review in 2003, Health Check in 2008, milk, sugar, fruits and vegetables common market organizations, ...

Meantime, it is remarkable to see that the EEC was founded by six countries (France, Italy, Western Germany, Belgium, the Netherlands, and Luxemburg) and that the number of Member States grew to 27 in 2007, after several steps of enlargement.

To define and implement a common policy for so many Member States with different economic, social and environmental characteristics is really a challenge.

The future programming period of the European Union's policies is 2014–2020 and so those policies, including the CAP, and their related budget, are already discussed.

What are the main topics under debate for the future CAP? Hereafter are presented the questions under discussion for the definition of the CAP after 2013 and beyond (as some strategies are already prepared for 2020).

Direct payments

The direct payments are not granted for ever. They are justified by a temporary loss of income for the farmers to allow them to adapt their productions to the demand on the market.

Direct payments have been defined according to the decline of intervention prices. They are not linked to real market prices. In some cases, like in 2007–2008, direct payments have been granted even if the prices received by farmers were exceptionally high. This fact is undoubtedly questionable.

The implementation of direct payments, after the Mid-Term Review of 2003, is very variable through time and space in Europe: individual model or regional model, a mix of both individual and regional models, the percentage of each model being stable or not with time. The implementation can also be regionalized among Member States. In Great-Britain, for example, the situation is different in England, Wales, Scotland and Northern Ireland!

Another criticism is the fact that the calculation of the amount of direct payments is based on historical references: the period 2000–2002, and even going back to the period 1986–1990 for the definition of regional yields for cereals. As time is passing, it is more and more difficult to justify the amount of direct payments by references dating from many years, individual situations, as well as the general economic conditions, being eventually thoroughly changed.

The level of decoupling can also be variable. This is also a consequence of the MTR agreement of Luxemburg in 2003. Some countries, like France, were against the principle of decoupling direct payments and production. On the other side, some countries like the United Kingdom, were in favour of full decoupling.

Finally, the agreement was that Member States were given the choice to fully decouple direct payments, or only partially, according to several possibilities. Even the date of implementation was, at their choice, 2005, 2006 or 2007.

So, finally, the amount of direct payments is very variable from State to State, from region to region, and farmer to farmer. For the future, this variability will probably decrease with the implementation of the regional model everywhere, with a flatter level of support per hectare. This is also an administrative simplification.

Direct payments ceilings could be decided, but according to which criteria? A ceiling per farm? Per working unit? A mix of both?

Direct payments thresholds, for the implementation of modulation (tax as a percentage of the single payment), which was also decided in 2003 in order to support rural development measures, can also be changed. Presently, there is no modulation under 5,000 euros per farm, and a supermodulation over 300,000 euros per farm (such farms can be family ones, but others are companies with many workers).

And how to justify modulation, as direct payments were established to compensate income losses[4]?

Budget sharing among member states

The first question is to determine the total EU budget[5]. Several Member States have severe financial problems (Greece, Spain, Portugal,...) and others would like to reduce their contribution or to «get their money back». So, there will be a big bargaining to define each Member State's contribution to the EU general budget.

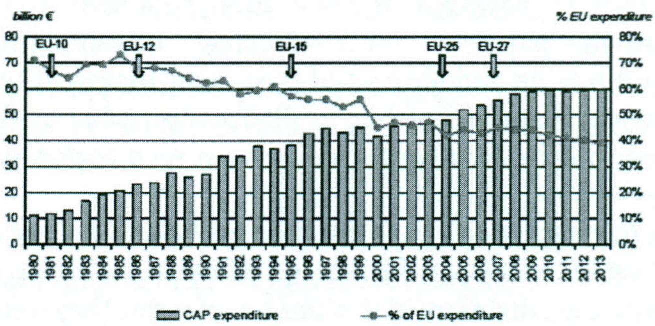
4 COPA-COGECA, *L'avenir de la PAC après 2013*, 2010.

5 T. Garcia Azcarate, *De l'audace, encore de l'audace, toujours de l'audace*, Economie rurale 300, juillet-août 2007.

The second question is to define the CAP budget within the EU budget. The share of the CAP was as high as 90 % at the beginning, as it was, and is still, the unique really common policy. In 2013, the share of the CAP will be 39 % (figure 1).

Figure 1

CAP expenditure in the total EU expenditure
(in current prices)



This graph shows the **development of CAP expenditure over the years as share of the EU budget. This share has decreased very sharply over the past 20 years**, from almost 75% to 44% and is forecasted to be around 39% in 2013. This decrease has taken place despite the successive EU enlargements. This downward path of CAP cost in the EU is due mainly to the CAP reforms and to the increase of other EU policies.

Sources: From 1980 to 2006: CAP expenditure – European Commission, DG Agriculture and Rural Development (Financial Reports); EU expenditure – European Commission, DG Budget (2008 Financial report). From 2007 to 2013: EU Financial framework 2007-2013.

Annual expenditure, in current prices.

Updated: 20.1.2010

Presently the CAP budget reaches 54 billion euros for around 500 million inhabitants. So, its costs is around 100 euros per capita and per year.

But what for the future? There are some pressures to reduce the CAP budget in favour of other policies, which are still to be defined.

Some Member States are net benefiters and others are net contributors since many years. So, it is understandable that some of them would like to change the European priorities.

Which criteria should be taken into account for the CAP budget sharing? The percentage of farmers in the national labour force? The relative contribution of agriculture to the Gross Domestic Product? The percentage of the territory devoted to agriculture?

It is clear that because of budget problems, the CAP could become less and less common, and even that «renationalization» could appear, which would be a political mistake for the credibility of Europe.

Single payment rights transmission

The creation of single payments rights, like milk quotas, finally leads to a «second hand» economy of rights.

According to the MTR reform, rights were granted to farmers according to the area (1 ha = 1 right) directly (crops) or indirectly (animal production) concerned with direct payments granted by the different common market organizations. Progressively, the direct payments linked to different common market organizations are merged into a «single» payment. The first direct payments to be merged into the «single» payment concerned cereals, oilseeds, proteaginous crops and bovine and sheep and goat meat mainly. The value of the rights is calculated according to different possible methods (the choice is left to each Member State and even each region in some of them).

In order to get the single payment, farmers have to declare their area under cultivation, receiving the amount of one right for each hectare declared, with the maximum of the number of rights they were granted according to historical references (the mean area concerned by direct payments between 2000 and 2002).

The rights can be bought and sold from one farmer to another. They can also be rented. And they are not necessarily linked to land, as they can be bought and sold without the corresponding land area.

This can lead to a phenomenon of concentration of the rights and so of economic activity, not only in the hands of some farmers, but in the hands of speculators.

The fact that the activation of the rights is linked to the agricultural land also leads to an increase of land value on the market, at the benefit of landowners.

Cross – compliance

In order to get the single payment, farmers have to prove that they respect various legislations about environment, human, animal and vegetal health and also animal welfare.

The implementation of «cross-compliance» is uneasy and is a real administrative burden for the farmers and also for the institutions which are involved in the controls.

It is also clear that sanitary, environmental, animal welfare standards are progressively strengthening. As a consequence, farmers always have to invest in order to respect these standards and be allowed to sell their products.

What were top, freely implemented standards yesterday will become compulsory standards tomorrow, with no return on investment.

The idea of Commissioner Fichler was to define and promote a «European model» of farming, based on an audit of the farms. But what about international competitiveness of European agriculture? Brazil, India or China do not implement such standards, not talking about social conditions[6]...

So, cross-compliance will be implemented in the future in order to keep European citizens' acceptance of the CAP and its budget, but it will have to be more efficient and simplified[7].

A "single" payment more and more "single"

Reforms of the last Common Market Organizations (cotton, tobacco, hops,...) have been decided and the specific direct payments linked to these productions will progressively be added to the present national ceilings, as deadlines were decided for full decoupling, varying among products, but not later than 2012.

So the «single» payment, merging at the first step only some direct payments and not all, will really become a single one, with perhaps some exceptions, like the suckling cow premium in some countries/regions.

Rural development

The share of rural development in the CAP budget regularly increased (figure 2).

The «second pilar» of the CAP (the first being the CMO's) will be strengthened in the future, as many associations and individuals stress

[6] H. Nallet, *La refondation de la PAC: un objectif ambitieux mais nécessaire*, Economie rurale 300, juillet-août 2007.

[7] Conseil général de l'agriculture, de l'alimentation et des espaces ruraux, *Des pistes pour l'avenir de la PAC après 2013*, Agriculture, Alimentation et Espaces Ruraux, octobre 2007.

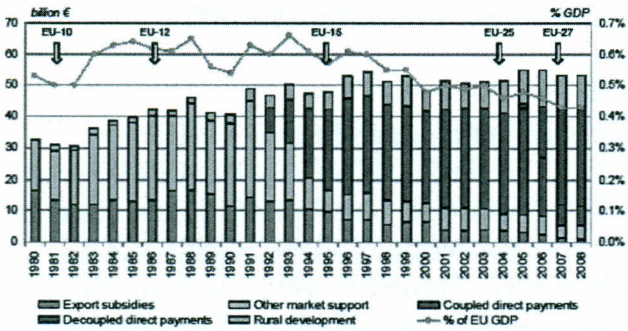
environmental matters, organic farming,…

Agriculture will not only be required to produce food in good quantity and quality, but also to provide public goods such as the protection of the environment, the maintenance of the landscape, the protection of biodiversity,…

Rural population and rural economy are also less and less agricultural « sensu stricto », so non-agricultural initiatives must be encouraged and financially supported in rural areas, though farmers would prefer a CAP focused on agriculture only.

Figure 2

CAP expenditure and CAP reform path
(2007 constant prices)



This graph shows **how the CAP has evolved through the evolution of the CAP expenditure:**
- **In the 80s the expenditure was mainly due to price support through market mechanisms** (intervention and export subsidies) which raised by the end of this decade due to the agricultural surpluses.
- **In 1992** there is the first big shift, due to the 1992 reform. **The market mechanisms** (in red and yellow) **were reduced and replaced by direct payments** (in blue). Thus price support is replaced by producer support. Finally, **spending on rural development measures also increased** (in purple).
- **In 2003**, one can see the impacts of the 2003 reform, with **direct payments shifting to decoupled payments** (green). Payments are no longer paid per ha or per animal but paid in function of what the farmer received in a reference period. **Spending in rural development is again reinforced** in this reform.
- **Spending has been stabilized** and despite the successive enlargements, **the overall spending as a share of the GDP has actually decreased**: 0.5% of GDP in the 80s to 0.4% now (graphic line).

Sources: CAP expenditure – European Commission, DG Agriculture and Rural Development (Financial Reports); GDP – Eurostat.

Annual expenditure, in 2007 constant prices. **Updated: 20.1.2010**

New challenges

New challenges are now – and will be in the future – dealt with by rural development aspects of the CAP. They are:

- the protection of biodiversity;
- water management, especially in the Mediterranean area;
- the development of renewable energy;
- the adaptation to climatic changes and the fight against them[8].

[8] Institute for European Environmental Policy, *CAP 2020: beyond the Immediate Ho-*

The CAP «health check» added two challenges in 2008:

– the promotion of innovation;

– the restructuring of the dairy sector ("soft landing" before the foreseen disappearance of dairy quotas).

Price instability

With lower internal intervention prices and less protection at the borders, it is obvious that European farmers will have to face more instable market prices.

How to react to this phenomenon?

The following possible solutions are discussed[9]:

10.1 Chain organization

One example is the dairy sector: the group of high level experts settled by the Commissioner Fischler-Boel deals with the relations among actors of the dairy chain, in order to find common interests, to guarantee more transparency, to ensure a better value-added sharing,...

10.2. Contracts between producers and buyers

The use of contracts could be spread among many productions.

If the milk quotas disappear in 2015, they could be replaced by contracts between farmers and dairy plants. They will be private contracts, but guidelines can be defined by the EU authorities.

These contracts already exist in some fields, like potatoes or vegetables. They are not always efficient against market instability.

10.3. Common marketing

To propose bigger quantities of products and more products strengthens the position of the farmers who often have to discuss prices with larger companies.

This approach is not new and is often promoted by public authorities. However, farmers are sometimes reluctant to gather in big cooperatives and prefer a more individual way of management, especially in countries where they have a negative experience of collective agriculture.

10.4. Direct sales

While selling directly to consumers, farmers can get better prices. However, this way of marketing generally concerns only a small quan-

rizon – A CAP Fit for 2020 ? 2009.

[9] J. Flament, D. Van Der Steen, *La PAC après 2013 peut-elle se passer de la régulation des marchés ?* Collectif Stratégies Alimentaires (CSA), 2010.

tity of products, as consumers are more and more used to buy food in supermarkets where they can find a large scope of products.

Direct sales can be better used for specific high value-added products.

10.5. Futures markets

To use futures markets can ensure future prices, whatever the evolution of the prices. But speculation is still a danger, as it was the case in the past. Some futures markets, active in the past, finally collapsed.

10.6. Income insurances

In some countries like Canada, income insurance programmes are implemented. The insurance fund is fed by farmers, the federal government and provincial authorities. For example, an expected gross margin is calculated for the production of 1 ha of wheat, and if the real margin is below 80 % of the expected one, because of price decline on the market, the insurance mechanism works and gives the farmer the guarantee to get at least 80 % of the expected margin.

This system could be interesting, but of course its efficiency depends on the quantity of money put into the fund when the situation is good.

International relations

The Doha round of negotiations of the World Trade Organization has been launched in 2001 and an agreement has been announced several times, but never came up to now.

So it is doubtful that it will be very important, if it finally happens. However, some problems could appear for the EU concerning market access and also the suppression of export subsidies (2013?).

Some big partners are now emerging, like Brazil, China, India,... They were not around the table when the CAP was defined, but now they are unavoidable partners and they are interested in agriculture and the potential EU market[10].

In the future, demand for agricultural products will increase as there will be 9 billion inhabitants on Earth in 2050.And economic growth will continue, also supporting the demand.

The production of agricultural goods will also increase, as techniques are always improving and are more adopted all over the world.

[10] A. de Ravignan, *Réforme de la PAC: pourquoi soutenir les revenus agricoles ? Alternatives Internationales* n° 038 – mars 2008.

However, humanity could face a land resource problem soon. It is said, for example, that Chinese are buying land in Africa.

Calendar of main future events for the definition of the CAP after 2013

According to the European authorities, here is the calendar of the main steps of the definition of the CAP after 2013.

June 2010	Proposals in the dairy sector
November 2010	Communication of the Commission on the CAP after 2013
July 2011	Legislative proposals
End of 2012	Agreement at the Council of Ministers
During 2013	Approval of regulations
January 1st 2014	Implementation of the new CAP

Public debate

On April 12, 2010 the new Commissioner for Agriculture, M. Dacian Ciolos (Romania), launched a public debate open to every citizen in order to collect opinions and ideas about the goals of the future CAP. The results were presented in July 2010.

Later will come the discussion about the means (tools and budget) required to reach the goals agreed upon.

Opinion of the agricultural commission of the European Parliament

In April 2010, M. George Lyon, member of the European Parliament and rapporteur of its commission for agriculture, made some recommendations as results of the discussions within this commission. Those recommendations about the future CAP are:

- to guarantee the production of food at the local level:
- to ensure a balanced territorial development:
- the CAP budget should at least be maintained at the 2013 level:
- to create a financial reserve against crises:
- to ensure a better sharing of direct payments according to clear criteria, such as the purchasing power:

- to define fair criteria to distribute rural development funds:
- full decoupling of direct payments
- to maintain financial support for less-favoured areas.

Conclusions

It seems that EU citizens are more and more demanding about agriculture. It is not enough to produce high quantities of good quality food products. Agriculture must also produce public goods, like the management of the environment (biodiversity, landscape, reduction of inputs,...)[11].

On the other hand, there are pressures to develop other policies at the European level, but many Member States have financial problems and would like to reduce their contribution to the EU budget. So, there is a pressure to develop other policies at the expense of the CAP.

Finally, it seems that the CAP will have to do more with less financial means. The question is: is it possible?

[11] G. Bazin, *Quelle PAC pour quelle agriculture européenne après 2013*, Académie d'Agriculture de France, 2010.

Nota o autorach

Teresa Astramowicz-Leyk, dr, Instytut Nauk Politycznych, Wydział Nauk Społecznych UWM, e-mail: teresa.astramowicz@cso.com.pl

Philippe Burny, prof., Gembloux Agro-Bio-Tech, University of Liege, Walloon Agricultural Research Centre Gembloux (Belgia), e-mail: philippe.burny@ulg.ac.be

Barbara Czop, dr, Instytut Nauk Politycznych, Wydział Nauk Społecznych UWM, e-mail: baczop@o2.pl

Bronisław Bombała, dr, Instytut Nauk Politycznych, Wydział Nauk Społecznych UWM, e-mail: 1dak@wp.pl

Benon Gaziński, dr, koordynator Europejskiego Centrum Doskonałości im. Jean Monneta, Instytut Nauk Politycznych, Wydział Nauk Społecznych UWM, e-mail: benon.gazinski@uwm.edu.pl

Andrzej Głowacki, prof. dr hab., Collegium Balticum, Szczecin

Stanisław Gorczyca, Senator Rzeczypospolitej Polskiej, e-mail: poczta@stanislawgorczyca.pl

Paulina Justyńska, dr, Katedra Prawa Europejskiego, Uniwersytet Mikołaja Kopernika w Toruniu, e-mail: paulajus@law.umk.pl

Kazimierz Łastawski, prof. dr hab., Wydział Nauk Humanistycznych SGGW w Warszawie, e-mail: lastawski@poczta.onet.pl

Magdalena Malanowicz, mgr, Centrum Dokumentacji Europejskiej, Biblioteka Uniwersytecka UWM, e-mail: cde@uwm.edu.pl

Waldemar Mioduszewski, prof. dr hab., Instytut Technologiczno-Przyrodniczy, Falenty, e-mail: w.mioduszewski@itep.edu.pl

Wojciech Tomasz Modzelewski, dr, Instytut Nauk Politycznych, Wydział Nauk Społecznych UWM, e-mail: e-mail: wojciech.modzelewski@uwm.edu.pl

Krystian Popławski, dr n. wet., Katedra Patofizjologii, Weterynarii Sądowej i Administracji, Wydział Medycyny Weterynaryjnej, UWM w Olsztynie, e-mail: k.poplaw@wp.pl

Lech Szajdak, prof. dr hab., Instytut Środowiska Rolniczego i Leśnego PAN, Poznań, e-mail: szajlech@man.poznan.pl

Józef Szarek, prof. dr habil, Katedra Patofizjologii, Weterynarii Sądowej i Administracji, Wydział Medycyny Weterynaryjnej, UWM w Olsztynie, e-mail: szarek@uwm.edu.pl

Waldemar Żebrowski, prof. dr habil., Instytut Nauk Politycznych, Wydział Nauk Społecznych UWM, Olsztyńska Szkoła Wyższa im. Józefa Rusieckiego