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Pod redakcją
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Spis treści

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Philippe Burny

The common agricultural policy at the crossroad

1. Introduction

The Common Agricultural Policy (CAP) is a pillar of the European Union. The goals of the CAP were clearly defined in the Treaty of Rome. The full implementation of the CAP in the six founders of the European Economic Community began in 1962.

After half a century, however, the situation has dramatically changed: the Member States are as numerous as 28, and the CAP was deeply reformed and adapted several times. For the future, the 2014-2020 period and beyond, new challenges appear for the European agriculture.

This paper briefly presents the history of the CAP and in some more details the topics of importance which are discussed to define the new CAP.

2. History of the CAP

2.1. Goals of the CAP

In the Treaty of Rome (Article 39), five goals were defined[1]:

- to increase the productivity of agricultural production factors, including the labour force;
- to improve farmers' income;
- to stabilize the agricultural markets;
- to guarantee the provisions for the domestic market;
- to deliver goods to the consumers at reasonable prices.

These goals are still valid today and must be kept in mind when reforms are discussed.

2.2. Principles of the CAP

The implementation of the CAP has to respect three general rules:

- the European market is unique (no borders within the EU) and the administrative prices;
- decided by the Council of Ministers for Agriculture are the same all over the Union;
- financial solidarity between the Member States;
- the preference for European products.

[1] A.Ledent, Ph. Burny, (2002). *La politique agricole commune – des origines au 3ème millénaire. Les Presses agronomiques de Gembloux*, 516 p.

2.3. Main tools of the CAP

To be implemented in order to reach the goals defined in article 39 of the Treaty of Rome, the CAP has to use some specific tools:

• *guaranteed prices*

Minimum prices at a given point of the food chain (and so, indirectly, at the farm gate), were defined for the main agricultural products: cereals, milk, bovine meat, sugar,...

• *intervention on the market*

When the market prices tend to fall below minimum prices, the Member States buy and stock agricultural products in order to increase domestic prices.

When the prices go up too sharply, the Member States sell agricultural products from their stocks to the domestic market.

• *threshold prices*

In order to protect the domestic market from international competition, minimum import prices at the borders of the EU (called "threshold prices") were established.

• *quotas*

As it rapidly appeared that it is not possible to guarantee minimum prices for unlimited quantities, "quotas" were defined for several products: milk, sugar, suckling cows premiums, ...

• *income support*

For some smaller products, a given amount of money was granted per hectare, per head, ...

2.4. The Mac Sharry reform (1992)

As overproduction on the world market became structural and the world prices were very low, the pressure on the CAP budget became stronger and international trade conflicts became sharper.

So, it was decided in 1992 to decrease significantly the guaranteed prices for the main agricultural products.

However, there was a risk that farm income would decline, as the market prices could decline, following the evolution of guaranteed prices. As it is contrary to the goals of the CAP, it was necessary to support farm income thanks to direct payments, conceived as a compensation to income decline, so that farmers could adapt and turn to more profitable productions (direct payments were not granted forever, though without precise time limitation).

The direct payments were calculated on an historical basis for general crops (cereals, oilseeds, proteaginous crops) and were specific of each concerned production ("coupled"). Set-aside was made compulsory for "big" farmers and accompanying measures were adopted:

- agri-environmental measures had to be proposed by the Member States (it was not compulsory before) to their farmers (who were free to implement them or not);
- forest plantation on low quality agricultural soils;
- pre-retirement financial support for farmers over 55 managing small unprofitable farms.

Thanks to the decline of domestic guaranteed prices, the protection at the EU borders (threshold prices) could decline too and the export subsidies could also decrease, as the difference between world and EU prices became smaller.

The reform of the CAP in 1992 was a very important fact to conclude positively the Uruguay round of negotiations (1986-1994) at the GATT level.

It is also important to note that during this crucial period (it was the first crossroad of the CAP), the agricultural policy stressed the quality aspects. In 1991 was published the first regulation on organic farming and, on July 14, 1992 were published the regulations on origin-labelled products, for which a specific quality, due to the origin, has to be proved.

2.5. AGENDA 2000

In March 1999 in Berlin, the summit of the European heads of State and government decided a long term policy for the period 2000-2006, for all the matters, including of course the CAP, relevant to the European authorities.

Financial aspects were particularly dealt with, as a new and important enlargement of the EU was foreseen (from 15 to 25 Member States on May 1st, 2004).

As far as the CAP is concerned the most important decision was that rural development was stressed on and became the "second pillar" of the CAP, the first pillar being the Common Market Organizations. Rural development is a very broad field of activity dealing with all aspects of rural life (economic, social and environmental ones).

Concerning the first pillar, Agenda 2000 was the continuation of the Mac Sharry reform: guaranteed prices went down again and direct payments increased, in order to compensate the supposed losses for the farmers.

2.6. The reform of Luxemburg in 2003

As the Agenda 2000 was defined for a period of seven years, from 2000 to 2006, a "mid-term review" (MTR) was scheduled in order to assess how the CAP fit to the situation of European agriculture.

Though it was supposed to change only minor aspects of the CAP if necessary, it finally appeared to be a second deep reform of the CAP. The main decisions were the following:

• *the single payment scheme (SPS)*

The management of the Common Market Organizations (CMO) was complex, with specific rules and even specific names, sometimes for the same rules. The farmers having diversified productions (for example: cereals, milk, bovine meat and sugarbeet) had to apply for many different CMO and could get financial support from the same different CMO (direct payments for cereals, direct payments for oilseeds, direct payments for proteaginous crops, benefit from guaranteed prices under milk and sugar quotas, young bulls premiums, suckling cows premiums, and so on ...).

So, it was decided to simplify all the payments and to grant a single payment to the farmers, this payment being the addition of all the previous ones.

Of course, the gathering of all the payments was not implemented at once, but progressively. It began with the gathering of the payments for general crops and bovine meat, the other payments being added later one by one, after a specific reform of the CMO.

So, the "single" payment was not really single at the beginnning, but became more and more "single" later on.

• *rights to the single payments*

For each farmer benefitting from direct payments were calculated a number and a value of rights (to receive the single payment), based on the reference period 2000-2002. For these historical references, the Member States had the choice between individual and regional ones. Even mixed systems were possible and are actually implemented.

• *decoupling*

To use their rights and to be paid, the farmers have to make a declaration concerning their cultivated eligible area. This eligible area (cereals, meadows, oilseeds, ...), at each farm's level, has perhaps no link with the productions practiced before, with direct payments which were used to calculate the value of the rights to the single payment. For example, a farmer who had only beef production on meadows during the 2000-2002 period, when he got financial support from the bovine meat CMO, can get, after the reform, an approximatively equal amount of money while producing wheat and oilseeds and having completely given up bovine meat production.

So, in the new system, there is no link ("decoupling") between the financial support and the nature of agricultural products, as only an agricultural area has to be declared.

The decoupling is linked to discussions at the World Trade Organization: the State authorities can not intervene directly on specific markets (giving specific support for wheat, for example), but are still allowed to support farmers' income.

With the decoupling method, the farmers are free to produce whatever they want, and to adapt their production system to the market, while continuing to receive some financial support, as a kind of safety net.

• *cross-compliance*

In the past, farmers were supposed to respect the laws related to their activity and could only get a financial penalty if some mistakes are observed.

After the MTR, farmers who would like to get financial support from the CAP have to prove in advance that they effectively respect the laws concerning:

- food safety, human, animal and plant health;
- the environment;
- animal welfare.

The controls can be made by different bodies like national or regional administrations, certification organisms, ...

Cross-compliance is an important constraint for farmers, and also for the controlling bodies. However, it appears necessary to justify the CAP budget to the European taxpayers, who are more aware than before of the abovementionned topics.

• *modulation*

Farmers do not receive the total amount of their single payment. A percentage of the amount exceeding 5,000 € is kept and used for rural development purposes.

There could be a transfer between Member States (as the share of each Member State is not the same in the first pillar and in the second one), but 80% of the amount of modulation must be used in the Member State where they have been collected, at least.

- rural development
  Rural development was reinforced as the second pillar of the CAP.
- budget discipline
  Guidelines for the CAP budget were reinforced, in order not to exceed the ceilings.

2.7. The CAP Health Check in 2008

After Agenda 2000 for the 2000-2006 period, a new financial and policy framework was decided for the 2007-2013 period.

And after the important reform of 2003, a review of the situation of European agriculture was made in 2008 and called "the CAP Health Check".

The main results of the "Health Check" were:

- to continue and deepen the 2003 reform;
- to continue to decouple the remaining specific direct payments, with the remarkable possible exception of the suckling cow premium;
- the possibility is given to the Member States to implement a more regional model (if it is not already the case, like in France, the Netherlands or Belgium) for the Single Payment Scheme;
- the reinforcement of cross-compliance;
- to implement a higher level of modulation;
- the possibility to implement some specific support, like in the dairy sector, within the rural development measures;
- the reduction of market intervention possibilities, like cereals purchases by the Member States; possible disappearance of the milk quotas in 2015;
- the possibility to strengthen the risks management in agriculture (like the implementation of income insurance schemes, for example).

3. THE CAP AT THE CROSSROAD FOR THE 2014-2020 PERIOD

In order to prepare the new legislation for the period 2014-2020, the Commissioner for Agriculture, M. Dacian CIOLOS, launched a public debate open to all European citizens, concerning the future of the CAP, between April and July 2011.

On October 12, 2011 the Commission edited the legal propositions about the future CAP, after the communication of June 29, 2011[2].

[2] European Commission (2011). *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A Budget for Europe 2020.* COM (2011) 500 final.

These proposals are justified by the fact that the CAP is faced with several challenges[3]:

• *„economic challenges*

Four topics are stressed on:

- food security;
- price instability;
- the general economic crisis;
- agricultural income.

• *environmental challenges*

They include the preservation of the environment, the improvement of natural resources management, measures againts dimatic changes.

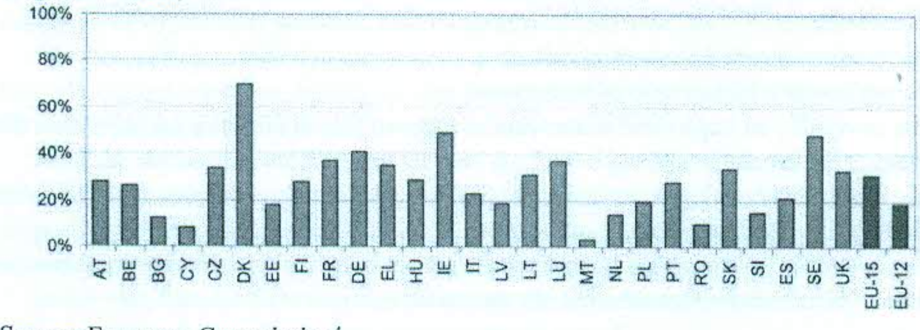
• *territorial challenges*

A better balanced development must be reached among the regions of the EU, urban and rural areas.

3.1. Direct payments structure

Direct payments are very important for agriculture income (see figure 1).

Figure 1. Share of direct payments (expenditure) in agricultural factor income (avg. 2007-2009)



Source: European Commission[4]

It is proposed that the direct payments will have a new structure:

a) Compulsory parts

1. "Green payment"

The "green payment" should be as high as 30% of the national total amount for direct payments for each Member State.

[3] European Commission (2011). *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. The CAP towards 2020. Meeting the food, natural resources and territorial challenges of the future.* COM (2010) 672 final.

[4] European Commission (2011). *Proposal for a Regulation of the European Parliament and of the Council establishing rules for direct payments under support schemes within the framework of the common agricultural policy.* COM (2011) 625 final.

To get this payment, the farmers have to respect three constraints (in addition to cross-compliance):

- crop diversification : to produce at least tree different crops on their arable land;
- to maintain the area of permanent pasture (maximum 5% less of the reference of the year 2014);
- to reach at least 7% of the arable area devoted to environmentally interesting purposes.

2. Specific support for young farmers

It could reach up to 2% of the total amount of direct payments in each Member State.

As only 7% of the farmers in the EU are younger than 35, it is necessary to attract new settlers who are younger than 40, by giving them financial support.

3. Basic payment

The basic payment is granted at the national or the regional level to the farmers according to their eligible number of hectares in 2014. Within the borders of the Member State or the region within a Member State, the payment for one hectare will be the same in 2019 at the latest (as the payment for one hectare is different from one farmer to another in Member States/regions which chose the system of the individual historical references after the 2003 reform).

The value of one right to the direct payment is equal to the national/regional ceiling (maximum amount) for basic payments divided by the number of rights granted in 2014.

b) Optional parts

1. Coupled payments

The general rule of the CAP is to decouple all the direct payments and to gather them into the Single Payment Scheme. However, the Member States/regions have the possibility to keep some coupled payments when they can prove that decoupling could have negative consequences on a specific sector. For example, it could be the case in the South of Belgium with the bovine meat sector, and especially for the suckling cows, for which direct payments represent 20% of the total amount of direct payments in Wallonia.

2. Payments for areas with natural handicaps

These areas are the same as the less favoured areas which receive financial support from the second pillar of the CAP.

In each Member State/region, the financial support for these areas can not exceed 5% of the total amount for direct payments.

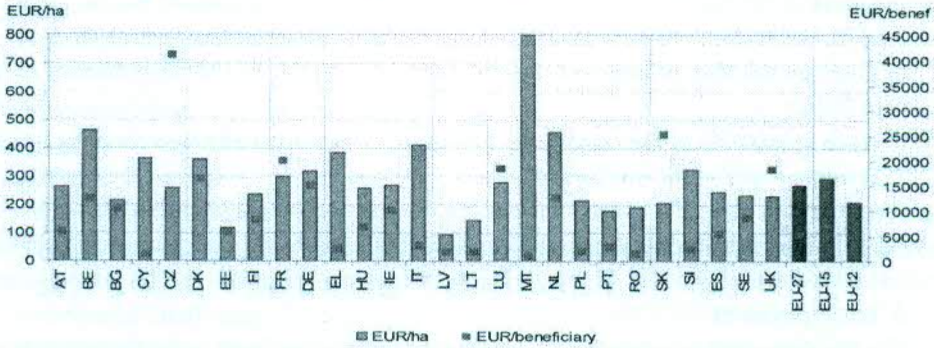
This payment can be added to the payment coming from the second pillar of the CAP (rural development).

3.2. New balance of the direct payments between the Member States

The mean value of the direct payment per ha is very different from one Member State to another (not even taking into account the differences which could appear among the regions of a given Member State or among individual farmers for Member States/regions which chose individual references for the implementation of the 2003 reform).

This situation is illustrated by the figure 2.

Figure 2. Average direct payments per beneficiary and per hectare in each Member State



Source: European Commission[5]

The highest levels of direct payments per ha are observed in Malta, the Netherlands and Belgium, the lowest levels are noted in the Baltic States (Lituania, Estonia and Latvia).

The proposal of the Commission is to reduce by one third the difference between the present situation of the direct payments and 90% of the EU mean of direct payments, for the Member States which are below. The money would come from the Member States which are above the EU mean, their direct payments being so reduced.

3.3. Specific regime for small farmers

Some 30 to 35% of European farmers can be considered as small farmers. Administrative simplification is here the goal of the Commission.

Three conditions are required:

- to be entitled by direct payment rights in 2014;
- to apply before October 15, 2014 (it is possible to get out later);
- to respect minimal conditions.

Each farmer can receive from 500 to 1,000 € per year.

The support under this regime can reach 10% of the total amount of direct payments in each Member State/region.

3.4. Maximum direct payment per farm

The Commission proposes to limit the total amount of direct payments (the green payment not included) per farm according to this scheme:

- 20% between 150,000 and 200,000 €;
- 40% between 200,000 and 250,000 €;
- 70% between 250,000 and 300,000 €;
- 100% over 300,000 €.

[5] European Commission (2011). *Proposal for a Regulation of the European Parliament and of the Council establishing rules for direct payments under support schemes within the framework of the common agricultural policy.* COM (2011) 625 final.

3.5. Market measures

The proposed market measures are the following:

3.5.1. Suppression of quantities limitations

a) Disappearance of milk quotas on April 1st, 2015.
b) Disappearance of sugar quotas on September 30, 2015.
c) Disappearance of plantation rights in vine yards in 2015.

3.5.2. Crisis management

a) The general clause of market disturbance is spread to all sectors;
b) Creation of a financial resource.

3.5.3 Improvement of the food chain organization

a) Possibility to create producers and interprofessional associations;
b) Possibility not to implement the rules of competitiveness.

3.5.4. Support for poor people

A specific regulation will be defined.

3.6. Rural development

Rural development has the same goals as the first pillar of the CAP:

- to improve the competitiveness of agriculture;
- to ensure a sustainable management of natural resources;
- to promote a balanced territorial developmen.t

Six priorities are defined[6]:

1. To support knowledge transfer and innovation to rural areas.
2. To improve the competitiveness of all kinds of agriculture and farm viability.
3. To support the food chain organization and risk management in agriculture.
4. To restore, preserve and strengthen the agro-systems depending on agriculture and forestry.
5. To promote the efficient use of natural resources, while reducing the production of CO_2 and making agriculture, forestry and the food chain resistant to climate change.
6. To promote social inclusion, poverty reduction and economic development.

Each Member State/region has to prepare and to implement a rural development programme. Some specific parts of the programme can be defined, concerning young farmers, small farms, mountainous areas and/or direct sales.

Each Member State/region defines its own strategy and the tools it will use and the measures it will implement. A strategic multifund scheme is defined by the Commission.

[6] European Commission (2011). *Proposal for a Regulation of the European Parliament and of the Council on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).* COM (2011) 627 final/2.

Agri-environmental measures and LEADER projects are compulsory. The agri-environmental and climatic measures must benefit from at least 25% of the national/regional rural development budget.

As before, there are specific payments for areas with natural handicaps.

Some tools are available for the management of risks in agriculture (insurance, income stabilization, ...).

4. THE EU BUDGET FOR THE PERIOD 2014-2020

The CAP has always represented the biggest share of the European budget, as it is still the unique policy which is mostly defined at the European level. So, it is clear that the the level of the total EU budget can have an important impact on the CAP budget.

During the last years, several Member States registered big budget problems and a financial crisis had to be faced by public institutions and private entreprises, the survival of the EURO being even endangered.

In such conditions, it was of course difficult to increase, or only to maintain, the EU budget for the period 2014-2020.

On another hand, more Member States were interested in developing new policies, especially those which are supposed to be important for our future (communication technologies, biotechnologies, ...). So, there is a pressure on the CAP budget within the EU budget.

On June 29, 2011, a communication of the Commission proposed to reduce the CAP budget by 12% between 2013 and 2020, the share of the CAP falling from 39.4 to 33.8% of the EU budget. However, the expenses for the "green" payments and rural development could remain equal in nominal terms, and some expenses could be excluded from the CAP.

On February 8, 2013 in Brussels, the European Summit of the European heads of State and government reached an agreement about the EU 2014-2020 budget[7]. For the topic number 2, entitled «Sustainable growth and natural resources», which includes agriculture, rural development, fisheries and a specific financial tool in favour of the environment and the fight against climatic change, the maximum expenses will not exceed 373,179 million €, including 277,851 million € for direct payments to the farmers and measures on agricultural markets. Compared to the previous period (2007-2013), there is a reduction of the direct payments by 10.2%. For rural development, the total amount for the new period reaches 84,036 million €, which represents a decrease of 13.5% compared to 2007-2013.

As a consequence, for example, the total amount of direct payments allocated to Belgium will decreas by 18% in 2020, as direct payments per hectare in Belgium are much higher than the EU mean, and so Belgium has to compensate partially the countries where the direct payments per hectare are lower than 90% of the EU mean.

However, more flexibility was introduced between the two pillars of the CAP. As much

[7] Agra Europe n° 3386 of February 18, 2013.

as 15% of the amount devoted to rural development can be used to increase direct payments.

It was also decided in Brussels to grant specific amounts for some Member States in order yo support rural development measures. For example, Belgium received an additional amount of 80 million €.

The final political agreement was reached in June 2013 between the EU Parliament, the European Council of Ministers and the Commission. For the first time in history, the EU budget was reduced in real terms, and the CAP budget even more, reducing its share.

CONCLUSIONS

The CAP has been reformed once again, to a greener and more equitable Policy. However, it is still at the heart of the European Community, as the unique Policy which is really defined at the European level. However, the CAP is adapted to the changing general economic conditions, the international markets and the stronger awareness of the European citizens about the environmental problems. Equity among the Member States is also important: the level of Financial support per hectare will be somewhat and progressively harmonized till 2019. So, some Member States and some farmers will gain from the reform, and others will loose, making the reform difficult to accept by someones.

However, the reform only partially takes into account the problem of the proportionality of the Financial support to the size of the farm, as additional payments for the first hectares is only optional for the Member States. And the labour force, which is so important for the future of European agriculture and the vitality of rural areas is not enough stressed upon.

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