THE COMMON AGRICULTURAL POLICY

Back to the origins

The story of the CAP starts with the Treaty of Rome in 1957. The then six Member States decided to create a common market for most agricultural products and established a list of general objectives for the common agricultural policy.

These objectives reflect the context of post-war Europe: food security was then a real concern on the old continent. In order to leave behind the years of food shortages in Western Europe, it seemed that farmers needed financial support so that they would modernise farming methods and produce more. Unfortunately, they were never updated.

The objectives of the European agricultural policy, as set in the Treaty of Rome and unchanged up to today, are

1. to increase productivity by promoting technical progress,
2. to ensure fair incomes for farmers,
3. to stabilise agricultural markets,
4. to assure the availability of supplies, and
5. to ensure reasonable prices for consumers.

After further negotiations on the specific measures to be adopted, the CAP came into force in 1962. Europeans leaders created a complex system of **agricultural subsidies** and **market regulation mechanisms**.

- Subsidies took the form of a complex system of guaranteed prices for farmers' products. Because those prices were high, farmers were incentivised to produce more - objectives 1 and 4 ✓ - and were ensured to get good money for their production - objective 2 ✓.
- As market regulation mechanisms, export subsidies, high import levies, and a 'public intervention' system (in case of surpluses, public agencies would buy and store excess products) were implemented. This would keep agricultural markets stable, thereby protecting farmers and consumers from strong price fluctuations - objective 3 and 5 ✓.

These instruments show clearly the main concerns of the CAP's founding fathers: increasing food production and protecting farmers' incomes. These objectives were quickly achieved, but the CAP also soon became the victim of its own success. The subsidies encouraged farmers to produce ever more and the public intervention system was forced to buy the surpluses and store them at great cost. This led to the famous mountains of butter and lakes of wine and to the continuous increase in the cost of the policy. By the time measures were taken to counter the surpluses, *i.e.* the introduction of production quotas in the early 1980s, the CAP was taking up almost three quarters of the EU budget. Furthermore, by incentivising farmers to intensify production and produce high-value agricultural commodities, the policy set European agriculture on the path of large monocultures, dependence on external inputs, and environmental degradation.

The successive reforms of the CAP:

1980s: Introduction of quotas

1992: McSharry Reform

1999: Agenda 2000 Reform

2003: Fischler / Mid-term Reform

2008: Health Check

2013: Ciolos / 'CAP after 2013' Reform

The reforms of the last decades have transformed the CAP. The pressure for change came mainly from international trade liberalisation negotiations, and to a lesser extent from the growing sustainable development and environmental protection fronts. As a result, farming has become more market-oriented and some environmental measures have been adopted.

Fundamentally, however, the change is only limited: the Treaty objectives and policy paradigm remain the same. The productivist discourse, characterised by arguments about food security, the need to protect farmers and the role of Europe in 'feeding the world', is still predominant; along with neo-liberal concerns for 'competitiveness' and budget reduction. Most of the money is still spent in subsidies to farmers with very little strings attached and large farms are still privileged against smaller and new holdings.

Looking briefly forward, observers have noted that the traditional pressures for change from WTO talks are likely to be irrelevant. It is therefore important that other pressures, such as the environmental movement, become stronger and more effective if any more change for better is to be achieved within the CAP.

(written by Celia Nyssens for the conference **Towards a Citizens' Agricultural Policy**, 22nd-23rd October 2015)

The present CAP

The present CAP consists of four legal texts, called Basic Regulations, on

1. Direct Payments
2. The Single Common Market Organisation (CMO)
3. Rural Development
4. Horizontal Regulation for financing, managing and monitoring the CAP

The two-pillar structure introduced by the Agenda 2000 reform is unchanged. Pillar I is entirely funded by the EU from the CAP budget and includes the Direct Payments and the CMO measures. Pillar II for Rural Development is jointly funded by the EU and Member States at rates that vary across EU countries (typically 53-47 but EU's share is higher in transition, less developed, and the outermost regions). Pillar I has always been allocated a much larger portion of the CAP budget than the Rural Development Pillar - Direct Payments typically account for approximately 70% of the CAP budget. Member States receive their share of the CAP budget in so called **national envelopes**, with a certain percentage earmarked for each pillar. In 2003 **modulation** was introduced, which enables Member States to transfer up to 15% of their Pillar I budget to Pillar II (without having to co-finance that extra portion). In 2013, **reverse modulation** was introduced, by which Member States can transfer up to 15% (even 25% for some countries) from their Pillar II envelope to their Pillar I budget.

Direct Payments

The reform brought some change to the Direct Payments. Before the reform, the 12 old Member States had a **Single Area Payment Scheme** (SAPS) and the 15 newer MS had **Single Farm Payments**. This system was highly unequal, thus unfair. To reduce direct payment rates differences, the Commission tried to phase out these schemes and oblige Member States to move towards a uniform payment per hectare at national or regional level by 2019. It was only partly successful. Single Farm Payments are being phased out quickly and replaced by a Basic Payment Scheme, but in the EU-12, Single Area Payments may be extended until 2020.

1) The Basic Payment Scheme (BPS). This scheme accounts for up to 70% of the national envelope for Direct Payments, minus the budget committed to additional payments (numbers 3, 4, and 5). Farmers need to apply and be eligible (cf. below), but there are no other conditions for them to receive this money.

2) The Greening Payment. 30% of the national envelope is earmarked for so-called Green Payments. To get this money, farms must be eligible to the BPS or SAPS and respect three basic "environmentally beneficial" practices:

- maintaining existing permanent grassland,

- diversifying crops (at least 2 crops if the farm's arable land exceeds 10 hectares and at least 3 crops if it exceeds 30 hectares; the main crop cannot cover more than 75% of the arable land, and the two main crops 95%), and

- ensuring an **Ecological Focus Area** (EFA) of at least 5% of the arable area of the holding (for farms with an arable area larger than 15 hectares). EFAs can be field margins, hedges, trees, fallow land, landscape features, biotopes, buffer strips, afforested area.

Greening Equivalency: Organic farms are seen to automatically comply with these conditions, so if they are eligible for Direct Payments they will receive this Green Payment. Furthermore, environmentally beneficial practices already in place are considered to replace these basic requirements.

Greening is compulsory for recipients of Direct Payments, which means that farms that do not meet the three basic requirements may be penalised beyond the amount of Greening Payment (In 2015-2016 there is no penalty, in 2017 it may be up to 20% of the BPS and from 2018 onwards up to 25%).

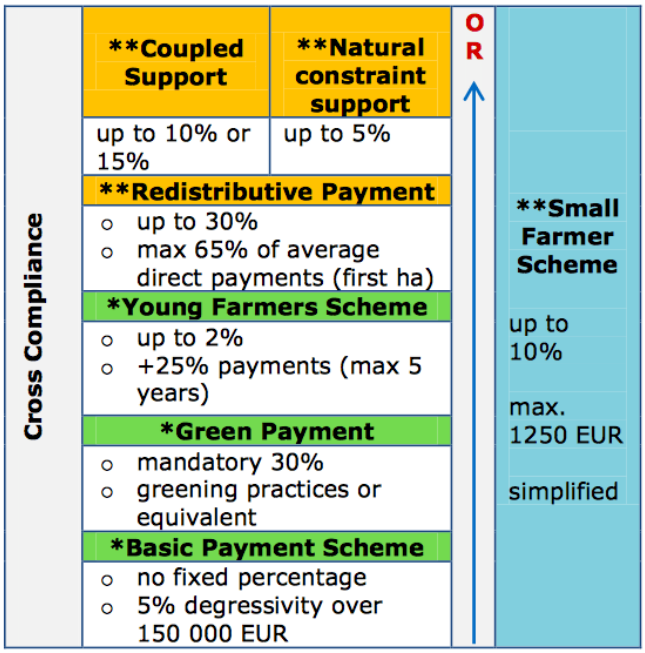
3) The Redistributive Payment. This is a voluntary measure, by which Member States can allocate up to 30% of their national envelope to be distributed to farmers on their first 30 hectares or up to the national average farm size.

4) The Young Farmers' top-up. Up to 2% of the national Direct Payments budget must be allocated to a top-up payment for "young farmers" who receive Basic Payments. To be eligible, "young farmers" must be setting up an agricultural holding for the first time, be qualified (Level II Qualification), younger than 40 years old, and be the effective and long-term head of the farming business.

5) The Less-Favoured Area (LFAs) / Areas with Natural Constraints (ANCs) top-up. Up to 5% of the national envelope may be granted to LFAs/ANCs. These are land in remote and rural areas where the location or the terrain can make land less productive.

The only **conditions** to receive Direct Payments (in addition to the eligibility criteria, not explained here) are that farmers should farm and respect the law. Due to CAP misspending in the past, the last reform introduced a new condition: Direct Payments' recipients must be **Active Farmers**. A definition of "active farmer" was inscribed in the CAP legal texts and a negative list was added: airports, railway services, waterworks, real estate services, and permanent sports and recreational grounds cannot benefit from CAP subsidies (anymore). In addition, farmers must comply with EU laws on biodiversity, animal welfare, and the water environment, this is **cross compliance**, and keep their land in "Good Agricultural and Environmental Condition" (**GAEC**), according to GAEC criteria set in the CAP texts.

Beside environmental issues and greening, issues of unfair distribution of CAP money across the EU and within countries were also high on the agenda of the last reform. The remodelling of Direct Payments and attempts by DG AGRI to introduce a cap on subsidies intended to improve **external** (across the EU) and **internal** (within countries) **convergence**.



* Compulsory ** Voluntary

Source: DG AGRI, retrieved here

Rural Development

Rural Development Policy is based on subsidiarity, flexibility, and targeted measures. Broad, common priorities are decided at EU-level, as well as the budget for 7 years in the **Multi-Annual Financial Framework (MFF)** (decided by the European Council separately from CAP negotiations). On that basis, Member States or regions design their own **Rural Development Programmes (RDPs),** which must encompass at least four of the following six common EU **priorities**:

1. fostering knowledge transfer and innovation in agriculture, forestry and rural areas;
2. enhancing the viability / competitiveness of all types of agriculture, and promoting innovative farm technologies and sustainable forest management;
3. promoting food chain organisation, animal welfare and risk management in agriculture;
4. restoring, preserving and enhancing ecosystems related to agriculture and forestry;
5. promoting resource efficiency and supporting the shift toward a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors;
6. promoting social inclusion, poverty reduction and economic development in rural areas.

Each priority contains more specific **focus areas**. In their RDPs, governments must set measurable targets for each focus area, then specify the measures chosen to achieve those targets, and the funding allocated to each measure. Member States or regions can also design sub-programmes with special attention to issues such as young farmers, small farms, LFAs/ANCs, women in rural areas, climate change, biodiversity and short supply chains.

Before the introduction of greening, policy measures aimed at improving the environmental sustainability of farming were limited to Pillar II. This means that a smaller budget was dedicated to environmental measures, and only on a voluntary basis, but that the money that was spent on those measures was usually spent effectively.

In the MFF for 2014-2020, deep cuts were made to Pillar II budget. In addition, the environmental dimension was weakened. In 2014-2020, the minimum amount of Pillar II funding that must be spent on measures related to land management and the fight against climate change is only 30%.

Greening can be seen in a positive light because it is compulsory and mainstreams the environmental dimension of the CAP into the large Pillar I, setting a foot in the door for further improvement. However, the greening criteria fail to target specific environmental benefits and have been strongly watered down during negotiations, leading to accusations of green washing.

Single Common Market Organisation

The CMO is a set of measures intended to monitor and manage agricultural markets; it is part of Pillar I.

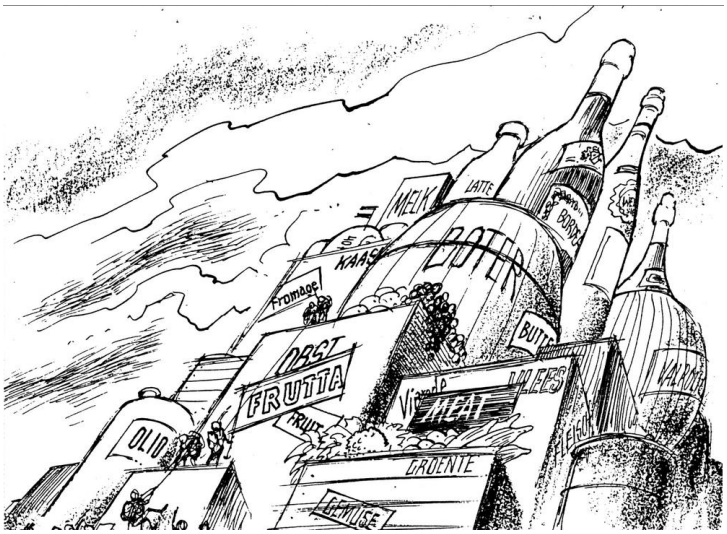
Measures targeted at the **internal market** are sector specific and focus on the management of production, for example through vine planting rights, or milk and sugar quotas. However, the original system of **public intervention**, which consists of public agencies buying and storing excess production, is still in place albeit at a much smaller scale than during the years of colossal overproduction in the 1970s and later.

Supplies management instruments are being phased out. An end has been put to milk quotas and the sugar quota regime is set to expire in 2017. The system of wine planting rights will also end in 2015, however it is replaced with the introduction of a new vine planting authorisations system from 2016.

In addition, the CMO also contains competition rules, as well as emergency mechanisms in case of acute market disturbances. In the last reform, new safeguard clauses were introduced to enable the Commission to take emergency measures to respond to market disturbances, funded from a **Crisis Reserve**.

Other CMO measures are aimed at improving farmers' negotiating position in the food chain. These offer support to farmers for them to better market their products and to set up producers' organisations.

External market measures influence the EU's agricultural trade with other countries. They take the form of import duties and other import regulations, and export refunds (*i.e.* the EU reimburses the difference between the high European price and the lower global market price).



Behrendt (1986) The difficult ascent of the euro-obstacle (Cartoon on overproduction within the CAP)

References & interesting links for further reading

Arc2020 (2013) CAP and Rural Development Policy reform deal for 2014-2020: Implementation toolkit (Retrievable from http://www.arc2020.eu/wp-content/uploads/2013/09/ARC-Toolkit-21.pdf)

BBC's Q&A: http://www.bbc.co.uk/news/world-europe-11216061

CAPreform.eu blog: http://capreform.eu

European Commission website: http://ec.europa.eu/agriculture/cap-post-2013/index_en.htm

European Commission Press Release Database:
CAP Reform – an explanation of the main elements (2013) http://europa.eu/rapid/press-release_MEMO-13-937_en.htm
Delegated acts on the CAP Reform – an explanation of the main elements (2014) http://europa.eu/rapid/press-release_MEMO-14-180_en.htm

farmsubsidies.org http://farmsubsidy.openspending.org

Groupe de Bruges's online resources on the CAP: https://caneucapit.eu/courses