CAP

Strengthening the EU by Audaciously Reforming the CAP and its Financing

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Out of every €100 of public expenditure, Europeans spend €41.40 on social protection and labour-market policies, €14.20 on health, and €11.30 on education and training. Far behind this trio come energy and transport (€2.20), research and development (€1.50) and agriculture (€1.10). Yet, it is mainly over the agricultural budget that Member States have argued, since it represents 40% of the European Union (EU) budget – the most important policy in spending terms. The Common Agricultural Policy's (CAP) real problem is not so much its cost in relation to other public policies as its status as the only one for which competence has been transferred to the EU level. Along with national policies, which represent more than 98% of EU public spending, the CAP is therefore the focus of all attention.

With the European Council refusing outright to increase the common budget, the EU finds its back against the wall. As a first paradox, in order to finance other necessary policies (research, external action, energy, etc.), it is obliged to erode the budget of one of the least tax-hungry policies so as to support areas mainly financed at the national level. As a second paradox, at a time when the EU is trying to meet Europe 2020's green growth targets, the CAP provides a means of acting directly on more than 21 million economic actors with a direct link to the environment (mostly farmers).

In a context of debt crisis and pressure on public spending, the negotiations over the 2014-2020 Multiannual Financial Framework (MFF) will likely be fraught. The Union has little chance of negotiating its budget in accordance with its long-term priorities, in particular concerning the environment and climate change. Even prior to the opening of these negotiations (in June 2011), Member State representatives are staking out radical positions. In December 2010, the Prime Minister of the United Kingdom, David Cameron, declared that he will firmly defend the British rebate. And the Prime Minister of Poland, Donald Tusk, asserted that Poland will resist any budget cuts, citing the importance of European funds for economic crisis measures in several countries. Member States seem to be heading for a showdown over *juste retour,* "net transfers" and the defence of correction mechanisms.

The EU needs audacious reform, as much in its budget as in agricultural policy. A scenario of high tension in the Council over the budget risks an outcome of deep conservatism on choices crucial to the future: a situation that allows everyone to settle on a minimal agreement with no real shared ambition. During these negotiations, how can the Polish, Danish and Cypriot Trio Presidency promote the European public interest? How can the EU's effectiveness be improved? Concerning the CAP in particular, how can this policy push the EU towards a society that better conserves resources, better protects biodiversity and works more effectively against climate change? How can the debate be oriented towards solutions that allow the CAP to make a better contribution towards employment, regional cohesion, competitiveness and growth?

Translating policy objectives into budgetary terms: a major challenge for the Trio Presidency

A debate on CAP reform successfully launched by the previous Trio in an inauspicious context

Debate on CAP reform is well under way within the agricultural Council of Ministers. Since 2008, the rotating presidencies have anticipated reform by leading discussions on the future of agricultural policy and by tackling major underlying issues (for instance, climate change under the Swedish Presidency). In 2010, efforts by the Spanish Presidency to pursue these discussions were particularly noticed. Whereas the CAP was practically absent from the Europe 2020 Strategy adopted by the European Council of June 2010, Spain pushed the agricultural Council of Ministers to focus on the CAP's contribution to the objective of smart, sustainable and inclusive growth. These discussions became heated when the British Secretary of State for Environment, Food and Rural Affairs, Caroline Spelman, asserted a desire to radically reform the CAP and reduce agricultural spending at a time of economic difficulty. Despite the differences, the Council of Ministers was able to agree on the imperative of a strong CAP. The Belgian Presidency subsequently launched a debate – proposed in a Commission communication on 18 November 2010 – on the main objectives of "The CAP in 2020". In March 2011, the Hungarian Presidency brought this debate to a close, to allow the Council of Ministers' ideas to complement a formal proposal by the Commission to be published under the Polish Presidency. This practice of thoroughgoing discussion by the decision-makers of agricultural policy has allowed a debate to take shape outside the period of formal negotiation and in parallel to the efforts of Directorate-General Agriculture and Rural Development to encourage a public discussion.

The coming Trio Presidency and budget negotiations. Will the new institutional context allow confrontation in the Council to be bypassed?

The pertinence of a complete rethinking of the CAP is clear, but a confrontation between Member States over the budget must be avoided. The first feature of an unpredictable reform is that the CAP's significant share of the EU budget is no longer guaranteed: the "compulsory spending" status will disappear, as will the accord between Jacques Chirac and Gerhard Schroeder to freeze agricultural spending. A second aspect is the end of the network of alliances, which in the past worked in agriculture's favour. There is total uncertainty over the future position of the European Council, where the number of Member States has increased from 15 to 27. Thirdly, negotiations over the multiannual budget will take place within an EU that has been hit hard by both recession and a public debt crisis. In this climate conducive to the rhetoric of national solutions, the European Council has so far been opposed to any increase in own resources – which would work against the *juste retour* calculations of Member States. This situation could change in the coming months, given the extra resources that will be necessary to finance treaty obligations – particularly new competences arising from both the Lisbon Treaty (for instance, the external action service) and from new challenges such as energy. A fourth feature of this reform is that the debate will take place in a post-Lisbon institutional context, where for the first time codecision will be applied to agricultural policy. It is difficult to predict the European Parliament's position in these negotiations. However, the Parliament's mode of representation means that it should, in theory, counterbalance the approach of Member States, based on horse-trading over figures.

Two hazards to avoid during the CAP and its budget

The Commission will present formal proposals on the multiannual 2014-2020 budget framework and CAP reform in June and September 2011. The rotating presidencies will need to direct the Council's discussions so as to find a policy agreement in 2012. This way the new rules can be finalised in 2013 and the Member States can define their national strategic priorities for an entry into force in 2014. Given the differences that might emerge during budgetary negotiations, Member States could opt for conservative choices rather than audacious reforms. In particular, this is the case of the CAP, which would suffer as much from the budgetary status quo as from cuts with no preliminary assessment of the policy's objectives.

Hazard 1: A budget cut that takes no account of the history of reforms, nor the services provided to the taxpayer by the CAP. The CAP is an attractive target for cuts in order to finance other policies. Yet, since the 1990s, agricultural spending has been subjected to financial discipline and upheavals unknown in most other sectors. Today, it represents less than 0.4% of the EU's GDP.[1] Its share "is decreasing and at a much faster rate than EU public spending".[2] In addition, it has changed: 20% of CAP spending targets competitiveness, the environment and rural development. Lastly, the agricultural budget has not increased with the enlargement from 15 to 27 states, with as result that the average support per farm and per hectare has fallen.[3] Arguments in favour of a major cut in the CAP budget rest therefore (generally because of a lack of information) on a stereotyped 1980s image of the policy, when funding was still coupled to production. Despite reforms, the reduction of European agricultural spending seems inexorable as long as the CAP remains one of the largest EU spending items[4]. This vision even finds expression in the communication on budgetary reassessment: the Commission advocates a continued reduction in CAP spending, without justifying its position with political or economic arguments. The approach takes account of neither the services provided by the policy nor the potential losses from a continued reduction in credits. It throws doubt on the gains for the European taxpayer of a reallocation of credits to other sectors.

1. David Harvey and Attila Jambor, "On the Future of Direct Payments: CAP Bond Revisited", 2010, available at: http://www.staff.ncl.ac.uk/david.harvey/ACE2006/Policy/Harvey&Jambor2010CAP.pdf
2. European Commission, DG Agriculture and Rural Development, "How much the CAP costs", *The Common Agriculture Policy Explained*, accessed 18 April 2011, available at: http://ec.europa.eu/agriculture/capexplained/cost/index_en.htm
3. Harvey and Jambor, *op. cit.*

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Hazard 2: Conceding to the conservatism of older Member States on the reform of direct payments. The debate over the size of the agricultural budget is not the only one that the Trio Presidency will need to face. There is also the critical question of the future of direct payments. These represent 33% of spending, equivalent to €39 billion in 2009, and they ensure support for farming incomes. Their distribution between Member States has been a source of discord since the British complaint of 1974, because in practice the payments favour large agricultural countries at the expense of rich countries with less agriculture. Moreover, under the regime of differentiated payments for the EU 12 until 2013, the single payments currently benefit mainly the EU 15. Within Member States, there is also significant inequality in the level of payments from region to region, depending on the type of agriculture. Given these inequities, most Member States since 2008 have been in favour of a rebalancing of the distribution system. But as negotiations approach, Member States that benefit from the system (including France, Italy and Spain) could give into the temptation to make *juste retour* calculations rather than defend equity. An example was found in Ilse Aigner – the German Federal Minister of Food, Agriculture and Consumer Protection – who in January 2011 declared her intention to oppose any reallocation of funds between Member States that would result from a policy more favourable to smallholder farmers.

Recommendations to the Polish-Danish-Cypriot Trio Presidency

Advocating shared policy objectives as an alternative to the narrow national focus on figures

As is shown by the Europe 2020 Strategy document adopted in June 2010, agriculture and the CAP are practically absent from the thinking of European decision-makers (except those responsible for agriculture) when they consider ways of boosting Europe's economies. At best, the CAP is seen as a policy with benefits (relating to food supply, health, climate change, etc.), but which is still too costly (demonstrated by the budgetary revision). At worst, it is seen as a dead weight in the EU budget. These ideas are often based on a lack of information about the costs and benefits of agricultural policy for European economies and societies. In a context of economic difficulty and pressure on public spending, the EU does not need to make choices that will be inappropriate

4. European Commission, Communication, "The EU Budget Review", COM (2010) 700 final, 19 October 2010, available at: http://ec.europa.eu/budget/reform/library/com_2010_700_en.pdf

and costly in the long term. To counter these budget-focused visions of the debate would imply making the CAP a part of a post-crisis European economic strategy, including an assessment of strengths and weaknesses – sectoral, regional and environmental. In this way, the EU would rediscover the role agriculture and the rural economy play in creating balanced economic and social development – in terms of jobs, growth, external trade, tourism, environmental management and protection of biodiversity, action on climate change, and culture. Such an analysis could serve as a starting point for the negotiations over the next MFF. New financing methods should be measured against the financial and political needs of the EU's policies, in particular those of the CAP.

Direct agricultural spending towards the European public interest

The principle of financial solidarity as practised today within the CAP operates against the European public interest. The system works in favour of national calculations by encouraging beneficiaries to demand more first-pillar CAP funding (mainly direct payments), which is financed entirely by the common budget, while contributors always demand less. Co-financing direct payments (the main spending item) at differentiated rates would help correct these flaws by involving states and regions in assessing the spending level needed to achieve the objectives.

The CAP currently works against the principle of cohesion as featured in the Lisbon Treaty. The CAP's second pillar, which includes support for zones of natural handicap, contributes to cohesion. But the credits are insufficient to counter the imbalances caused by the method of calculating single payments, which encourages farm concentration and helps major agricultural regions. Such disparities undermine cohesion and represent an important flaw in current agricultural policy. They should receive special attention from the presidencies since they are a ready-made argument for those who question the legitimacy of agricultural spending.

A CAP to finance European public goods and services and to stimulate competitiveness

The European public goods delivered by the CAP should be assessed before any reallocation of credits to other policies. Among them are commonly cited the quality of the European environment (carbon storage, biodiversity management), country landscapes, security of food supply, and food safety. Other benefits include the Single Market and its advantages – such as economies of scale and the large-scale sharing of risks. "However, other quality improvements in rural regions, or water quality, are essentially public goods of a local nature".[5] To continue to benefit from these, the policy must compensate for market failures that hinder the provision of these public goods, and also establish safety nets to help farmers deal with a collapse in prices and incomes in times of crisis. Lastly, the policy should encourage competitiveness in European agriculture, while remaining compatible with the rules of the World Trade Organisation.

5. Jean-Christophe Bureau and Louis-Pascal Mahé, "CAP Reform beyond 2013: an idea for a longer view", Notre Europe, 27 May 2008, available at: http://www.notre-europe.eu/?id=38&tx_publication_pi1%5BshowUid%5D=1802&L=2

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