
CAP

How to Prepare a Fair and Efficient CAP Reform?

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The common agricultural policy (CAP) is one of the oldest common European Union (EU) policies. It has had a Community character from the very beginning: responsibility for agricultural policy has been transferred from the Member States to EU institutions. Many EU citizens think of the CAP as the most costly policy of the EU, but perhaps this perceived costliness is simply due to the fact that the policy is largely managed at the EU-level? What other reasons can explain the high costs associated with agricultural policy? These questions and others will be answered in this policy paper. When planning a new financial perspective there is always much talk about the CAP. The new financial plan is due to be discussed later this year and approved next year, and the future form of the CAP is already being discussed. Talks on new CAP rules and a form of direct payments have been under way for a few months now. The CAP now seems faced by several crucial issues concerning its very future.

Will all the rules be decided during the Hungarian Presidency, or will the Poles have their say? What is the attitude of the Trio Presidency – Poland, Denmark and Cyprus – towards the CAP? What are the opinions of those countries regarding the European Commission proposal on the future of the CAP? And finally, can the ongoing debate about the future and reform of the CAP influence the preparation of the new financial perspective? Will the CAP continue to be one of the most important spending items in the EU budget or will other areas receive more attention following the economic crisis? This policy paper will focus on the above issues – the content of the planned reform of the CAP, the ongoing discussion on the future of the CAP in the context of planning for the new financial perspectives, and the attitudes of the Trio Presidency towards the CAP and its financial performance. In conclusion, a few recommendations and visions for the future of the CAP will be outlined.

The future form of the CAP: what does the European Commission propose?

On November 18, 2010, the Commission presented a Communication on the future form of the CAP after 2013. The proposal followed several months of public debate started by the

Commission in April last year. Four key issues were identified and comments were solicited from all interested European citizens: the general public, interest groups, entrepreneurs, farmers themselves, various experts, research institutes, etc. During the two months that were allowed for this discussion, the Commission received about 5,600 contributions. Its summary served as the basis for the Communication.

What was contained in the Communication? The key theme of the communication, however, is direct payments. Production volumes from the reference period 2000-02, which are used to calculate direct payments, are somewhat irrelevant now: the formula for calculating them must be updated or a new one created. In addition, we still use a different system of direct payments for the “old” and “new” Member States. The aim of this reform is to unify everything into one model identical for all Member States. The new model should also be more transparent and equitable, and the farmers will continue to follow environmental requirements. There will also be a ceiling set for direct payments. What can be viewed as a step in the right direction is that subsidies will support only active farmers. Subsidising football pitches and golf courses or other non-agricultural areas will finally come to an end.

One question that remains to be resolved is the relationship between financial support and the size of companies. This is some kind of roofing of direct payment of large farms, so-called *capping*. In this regard, there is strong disagreement between Member States, mainly due to historical context. For example, in the Czech Republic and other former Eastern Bloc countries, large farms may risk a reduction of payments. It is expected that this will be a very complicated agenda item. The less favoured area (LFA) payments will most likely be maintained, since it is necessary to promote specific farm locations in order to conserve biodiversity, landscapes, and the daily life of remote rural areas. An unresolved question is whether the LFA payments will be included in the first or second pillar of the CAP.

Aside from direct payments, another important issue raised by the Commission is the fight against climate change and the issue of environmental protection. The Commission proposes several solutions. One is to sow immediately after harvest to ensure permanent vegetative cover. Another is to follow crop rotation practices that alternate crops according to certain rules and thus do not exhaust the land unilaterally (allowing the earth to regenerate better). Equally important is to maintain a certain percentage of pastures, for example for carbon dioxide (CO₂) storage. The Commission also proposes to restore set-aside fields. Such fields left fallow can provide shelter to various animals and plants.

The Communication’s conclusion also deals with the future outlook. For example, the Commission notes that the United Nation’s Food and Agriculture Organisation expects world food demand to increase by 70% by 2050. This highlights the importance of food production. The Commission also correctly draws attention to the sustainable management of natural resources and the development of rural areas, where income is currently only 40% of the European average.

Some experts criticised the Communication for its excessive generality. However, in defence of the Commission, it must be pointed out that its document was intended merely to outline the main issues that need to be addressed. Now that the issues have been outlined, it is up to the Council and Parliament to discuss their opinions and make conclusions. The Commission’s Communication could be criticised for its diplomatic language, which is intended not to offend any Member States. Although that was expected, it is clear that in the end it will be impossible to meet the requirements of all the Member States. The future shape of the CAP will once again be a practical compromise. From the debate surrounding the future of the CAP after 2013, it is clear that the crucial issue is funding, which will be the subject of the next part of the paper.

Why does the CAP receive so much from the EU budget?

CAP has always been one of the main expenditure items of the EU budget. In part, this was due to the fact that the policy was from the beginning managed centrally at the European level, so it also needed to be funded centrally – if only so that all Member States have the same conditions for competition. At first, the CAP was also financially supported with the intention to ensure food self-sufficiency and the competitiveness of European farmers in relation to American producers. Of course, the cost of the CAP has also increased proportionally with the enlargements of the EU. The administrative burden has also increased, as has the need to improve conditions for farmers in backward regions of some of the new Member States.

It is clear that the issue of financing of the CAP will also be relevant to the matter of creating a new financial framework, because the net-payer Member States no longer want to contribute as much. Another source of money will have to be found, such as an EU tax, which is also a subject of discussion. However, the matter of financing of the CAP is now overshadowed by the negotiation of an overall policy framework. The agreed formula for direct payments will be crucial, especially for the distribution of financial aid. According to the formula, each country can clearly calculate what CAP budget they would need to ensure sustainable farming. Discussing spending amounts in the EU budget will be the next step on the road to a new and perhaps better organised CAP.

Politicians and the public have become increasingly demanding in the area of environmental protection and welfare. The Commission’s Communication therefore puts a major emphasis on the so called “greening of the CAP”. But if the CAP budget is not higher, it may not be possible to tighten the criteria, to follow them and be competitive not only within the developed world, but also against outside countries. If the budget remains the same, it will probably be necessary to make the CAP cheaper and simpler in other areas, so that resources are saved for more important things (such as environmental protection).

The Member States, especially the new ones, will under no circumstances accept a transitional period for direct payments, which was also mentioned as a possibility in the Communication.

This does not mean that the amount of funding that goes to each Member State will be the same – this should be explained to the public. A Czech farmer will not and cannot receive the same payment as his French colleague, because in France the price of land and labour are more expensive. If the Czech farmer received the same support, it would be a huge advantage for him and the French farmer would not be competitive. So this is not a question of equalising funding, but rather of equalising conditions so that all farmers in the EU have the same opportunities.

Another important issue is co-financing from national budgets. Since each state can afford to pay its farmers a different amount, a maximum limit of additional national funding must be established. So, this is another area where establishing certain rules is necessary, because it is already evident that some countries financially support their farmers more than others, leading back to the problem of unequal conditions.

There is one further question to consider. Is the CAP really so expensive when calculated per person? Let us assume that CAP spending is about €40 billion per year and that there are 500 million EU citizens. That equates to about €80 per year or approximately €6.5 per person per month. This does not seem such a high price to pay to obtain a sufficient supply of high-quality food, while protecting the environment, caring for the countryside and performing many other functions of today's agriculture. It should be noted that CAP funds do not only go to agriculture, but also to rural development, the environment, forestry and other areas related to the preservation of natural resources.

Opinions of the coming Trio Presidency on the issue of CAP

Poland believes that it will not be possible to ensure sufficient European farmers' competitiveness if the CAP budget is limited. The same problem, according to Poland, can be seen in meeting the CAP objectives in these circumstances. It is therefore expected that Poland will fight for a higher CAP budget. Concerning the direct payments scheme proposed by the Commission, Poland is unhappy that the Commission has proposed ideas without providing any analysis of the problem. Poland does not understand why the Commission sees so negatively the EU-level flat rate. It would like to know what analysis the Commission used to support the idea that guaranteeing a minimum payment level for farmers is economically and politically sustainable, and why the Commission proposes to introduce only economic and environmental criteria and omit social ones.

Poland also proposes two basic criteria for the distribution of direct payments. The first is *agricultural area*, because it ensures both food security and environmental security, and the second is the *number of employed people in agriculture*, measured in annual work units. Poland believes that this would resolve the ongoing dispute between the Member States about the size of businesses.

The “greening” component constitutes another cause of criticism from Poland. It is not that Poland has a negative attitude towards environmental protection, but rather that it believes that, in the first pillar, it could be sufficient simply to follow cross compliance principles. Even when following these principles, there have been significant differences among Member States. So, is it reasonable to reward farmers with the same amount for equal work carried out with differing thoroughness? And does the Commission dispose of analyses that show the environment effects of meeting cross-compliance? Poland suggests first to coordinate and harmonize the meeting of cross-compliance principles. Additional greening measures could then be carried out in pillar II within long-term projects, but perhaps it might be advisable to make some of the additional requirements of greening obligatory. This may occur only under pillar I, since in the second pillar all projects and requirements are on a voluntary basis.

One important observation from Poland about the “greening” component concerns competitiveness. Can European farmers be competitive if they have to fulfil many ecological demands with a limited budget while other new players are admitted into the European market under the new trade agreements, especially if those players are not obliged to follow similar rules?

Poland also sees a problem in the issue of LFA. If the new biophysical criteria defined in the Communication came into force, most current medium LFA in Poland would lose their status. Poland would also like to know the outcome of previous discussions and analysis relating to the establishment of new criteria for LFA. Poland will surely ask under which pillar it is better to place the payment for LFA. It would also like to push for better a coordination of the CAP's Pillar II with Cohesion Policy. According to Poland, it is necessary to determine the functions that should be added by the common strategic framework for these two areas.

Denmark, the country that follows Poland in the Presidency, also has specific ideas on which direction the future CAP should take. It should continue with a market-based orientation, focusing on new challenges and providing public goods, and it should continue to contribute to sustainable development. In order to support research, development and innovation in the agricultural sector, the goals of the “Europe 2020 Strategy” should be partially incorporated into the future CAP. Denmark believes that the future of the agricultural sector lies in its ability to be innovative and to make use actively of its professionalism, rather than simply relying on traditional support mechanisms. This seems a step in the right direction.

Denmark proposed sensible comments on the Commission's Communication. It asked the Commission to take into account the need to simplify the CAP, for both farmers and the authorities who distribute payments. And it asked that more detailed information be provided on important points in the Communication as soon as possible.

Pillar I's direct payments can be divided into three layers: a basic component, a green component and specific natural constraints. According to Denmark the question is what kind

of model to use for financing the various layers of the new system. At what rate should direct support be distributed among these three components? The basic component is a direct payment providing a uniform level of support to all farmers. But what will be the method of calculating this payment? What does the Commission understand by “uniform level”? It is necessary to clearly define these terms, which so far have been lacking substance.

The second layer, the so-called green component, is also somewhat vague. What exactly will be included? How should it be handled in particular Member States? Each country according to its conditions and character should fulfil different specific requirements in the framework of the green component. How will the elements of the green component be managed and controlled? What is the legal framework attached to this measure? For example, what are the implications if some requirements are not met? Denmark also asks, if the two layers are obligatory, why they are separated? Why can they not be administered together?

The third layer of direct payments, the so-called specific natural constraints, is also a complicated issue. It is necessary to clearly specify the criteria that define these areas. And, what if granted funds are not used for intended operations, in layer 3 for instance? How will the matter of unused funds be resolved? Finally, will it be possible to transfer funds between different layers? Will unspent funds be returned to Member States or to the EU budget?

Another issue in the Communication which the Danes find debatable is the problem of small farms. The Commission proposes a special scheme for small farmers. But what is the purpose of this proposal? Simplifying single payment for these farmers or increasing financial support for small farms? It is necessary also to clearly specify the definition of “small farmers”. Another highly controversial issue is “capping”. Will the Commission propose an upper limit for payments that go to large farms or will there be progressive reductions in support of these businesses? How should the funds obtained in this way be used? To provide a general increase in the value claimed by all Member States or for the second pillar, i.e. rural development?

Denmark also believes that it is not necessary to modify the existing definition of active farmers, because the CAP has long supported other areas besides agriculture. It aims, rather, to support beneficial land use. In the case of redefinition, how does the Commission intend to take the different structure of agriculture between Member States into account? Overall, there are growing doubts about the additional administrative burden that the new system could cause.

Concerning the CAP and the Commission’s Communication, the position of the third country in the next Trio Presidency, namely Cyprus, is not well known. Cyprus does not appear to have written an official opinion on the Communication. Its position will thus not be known until June 2011, when the future Trio Presidency officially presents its common position on important issues.

Conclusion and recommendations for the future CAP

What should the CAP look like after 2013? What specific recommendations can be made? Can we expect a further increase of the CAP budget for the CAP, or the opposite?

Regarding the budget issue, it is clear that due to the current economic crisis the CAP budget is not likely to grow. The European Union has other priority areas that it would like to support more, such as Cohesion Policy, energetic and research. Agricultural policy is therefore likely to be put aside. Agricultural powers such as France will make efforts to ensure the CAP budget is not reduced.

It is a commonplace that the economic crisis (which affected not only the EU) means that there are other fields more important than agriculture. But this need not be the entire programming period. It is important to note that the funds we set now will be valid throughout the entire financial perspective, and economic stability is likely to return. As already mentioned, it is necessary to equalise the conditions for all Member States, to make direct payments fair, to provide some limits for additional funding from national budgets and to not let these financial contributions affect the competitiveness of farmers in the EU.

Furthermore, it is important to define properly the concepts “active farmer” and “LFA”. If the LFA is moved to pillar I, this might mean co-financing by the state, the merits of which can be debated.

The capping of payments for large farms is another matter for discussion. It is true that large farms can benefit from economies of scale, but then if the EU cuts their money, this will work against the development of innovations that only large companies can handle. However, it does seem necessary to encourage small and medium enterprises, which in some areas are the key factor in rural development.

The Commission is right to declare that the future CAP should be fair, simple, market-oriented, sustainable and transparent. If the new CAP builds upon these words, it would be a genuinely stronger and more functional policy.

Other recommendations follow:

To specify clearly the requirements of the “greening” component so it will not be just another administrative burden of the CAP.

To better identify and clarify the relationship between the CAP, rural development and Cohesion Policy, and avoid duplication of functions. Money should be targeted so that the boundaries of these policies do not overlap unnecessarily.

To deal better with the issue of ageing population in the rural areas, by making the countryside and agriculture more attractive for young people. About half of the farm owners in the EU are over 55 years old. In contrast, young farmers report higher profits, are not afraid to introduce new technologies and promote environmental issues. The problem for them is the initial long-term debt and also the fact that they often do not have satisfactory qualifications to receive EU subsidies. Better conditions for young farmers need to be encouraged.

To find a reasonable balance between imports from third countries and European products, which must meet high quality standards. Third countries have fewer such restrictions, but limiting imports into the EU market could threaten their existence. It is therefore necessary to find a compromise solution.

To bind the new direct payment system to the provision of public goods. By “public goods” we mean things such as agricultural landscapes, biodiversity in soil, water quality, water availability, air quality, carbon storage and climate stability. Farmers provide these services or goods to the public.

To create a new optimal formula for direct payments. Apart from the land area criteria, regional criteria should also be used – e.g. where the farm is located, and the level of modernisation of the company. Member States’ cost of production inputs, including land prices and rent, should also be taken into account. It would be possible to divide direct payments among Member States according to agricultural land, and in this case, the aforementioned criteria could be used for more detailed analysis. However, this would mean greater power in the hands of national governments.