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The Common Agricultural Policy
Update to Chapter 11
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The challenges facing agriculture and food production in the 21st century stand in marked contrast to 1962, when the Common Agricultural Policy (CAP) first started operating. With an ever increasing global population, food production needs to double by 2050 in order to meet growing demand. Meat consumption is set to increase substantially given the rising living standards in developing nations. In addition, climate change and global warming carry the dangers of deteriorating soil, reduced water quality and the loss of biodiversity. Add to these challenges the persistent deficiencies of the CAP – most notably the disproportionate financial support, which allocates 80 per cent of subsidies to the richest 20 per cent of farmers - and the demand for reform was pressing.

It took the European Union two years to negotiate a final settlement which was reached in June 2013. Based on the Lisbon Treaty of 2007, the European Parliament (EP) for the first time was instrumental in negotiations under the so called 'ordinary legislative procedure'.[1] Some commentators blamed the EP for this rather slow progress. The staggering amount of forty rounds of negotiations gave rise to the notion that the parliament indeed had found it difficult to handle its new responsibility as a co-legislator, and instead was often mired in deadlock over conflicting positions from the MEPs' divergent constituencies. Agriculture commissioner Dacian Cioloş also did not help matters with his baffling array of proposals and policy options. In the end though, a deal was struck just in time before the new seven-year budget of 2014 – 2020 (which the EU cumbersomely refers to as its 'financial perspective') entered into force. One also has to emphasise that despite these protracted negotiations, the subsequent deal is still preferable to the previous modus operandi, in which a limited number of key national officials hammered out an agreement without much public consultation. Absurdly long it may have taken, but the process of agreeing to a new CAP with the instrumental involvement of the EP has undoubtedly given a boost to democratic standards in the EU.

We ought to remind ourselves, that the CAP continues to have a heightened position on the EU's policy agenda. It still consumes the largest slice of the budget (forty per cent), and the relevance of agriculture to modern day societies continues to dwindle. Now, farmers only represent 4.6 per cent of the EU workforce and their economic contribution is a mere 1.7 per cent of the EU's overall GDP. Based on these figures alone, the CAP could not be more anachronistic. But the large amount of money that the EU spends on its farming sector has to be placed in perspective. Outside of the CAP, national governments are by and large prohibited from supporting their agricultural sector. These costs are nearly exclusively met by the EU. This is in stark contrast to some

[1] See Chapter 6 on the European Parliament.

other policies that the EU pursues. For instance, *Europe 2020* - Brussels's policy initiative aimed at establishing a sustainable yet competitive EU economy - is complemented by numerous financial mechanisms at member state level. But when it comes to farming, it is only the EU that governs the agricultural sector in a supranational manner. It therefore comes as little surprise, that the CAP's share of the budget is so disproportionally high, since no other (national) budget covers any such costs.

Table 11.7: Direct Payments to Member States, 2015 – 2020 (billion Euros)

Old EU 15		New Members	
France	45.049	Poland	18.086
Germany	30.575	Romania	10.491
Spain	29.168	Hungary	7.622
Italy	22.962	Czech Republic	5.242
UK	21.411	Bulgaria	4.540
Greece	12.009	Lithuania	2.730
Ireland	7.279	Slovakia	2.314
Denmark	5.417	Latvia	1.415
Netherlands	4.575	Croatia	1.065
Sweden	4.187	Estonia	0.838
Austria	4.154	Slovenia	0.819
Belgium	3.146	Cyprus	0.300
Finland	3.142	Malta	0.030
Portugal	3.470		
Luxembourg	0.201		

Source: European Commission, DG Agriculture, December 2013

The financing of the CAP is organised into two pillars. Pillar 1 receives the bulk of the money (a total of 312 billion Euros for the current seven-year budget of 2014 – 2020). Out of this pot, 60 billion Euros are reserved for so-called 'market-related expenditures', such as subsidies for agricultural exports, while 252 billion Euros are direct payments to farmers. In total, Pillar 1 accounts for 29 per cent of the overall EU budget. Pillar 2 targets rural development and conservation for which 96 billion Euros (or 9 per cent of the overall budget) are earmarked.

The main changes to the way agriculture is organised are:

- *A move towards a greener CAP*: Farmers have to increase biodiversity and have to grow at least three crops[2], whilst also being required to establish so-called 'environmental focus areas' (EFA) with hedges, trees or biotopes. These are complemented by rural development measures, such as financial support for organic farming.

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[2] Two of those crops have to represent at least 5 per cent of farmed land, while one of the three is not allowed to take up more than 70 per cent

- *A fairer distribution of finances*; with regards to direct payments, each farmer now receives at least sixty per cent of the national or regional average, while no single member state receives less than seventy-five per cent of the EU average.
- *Incentives for young farmers*: a third of EU farmers are over the age of sixty five, which prompted the EU to set aside a maximum of 1250 Euros per year per farmer. This financial support is reserved for farmers under the age of forty and aims to facilitate business start-ups or conservation projects.

Not surprisingly, opinions on the reform were divided. Member states including Denmark and the UK had for years argued for more market liberalisation and less price intervention. This has at least partially been achieved, since sugar quotas will be abolished by 2017 and financial support for establishing new vineyards will cease from 2016 onwards.[3] On the other hand, the EU imposed standardised rules on farmers in order to foster biodiversity and a more ecologically minded landscape. While moving towards ecologically more diverse farming is laudable, it will undoubtedly make the CAP more complicated and bureaucratic. Moreover, environmentalists were furious with the European Parliament given the broad range of exemptions to the flagship reform measure on greener agriculture. As such, small farms with less than ten hectares (which account for thirty per cent of all EU farms) do not have to abide to the crop diversification rule. And farms with less than 15 hectares do not have to establish ecological focus areas. These exemptions will of course greatly undermine a positive environmental impact of the reform.

To sum up, the reform package did address a number of severe shortcomings. The payment system now seems fairer and important environmental rules were established. However, the fundamental nature of the CAP has changed very little. It is still the biggest EU budget item, the bureaucratic burdens surrounding farming have eased very little, and farmers are still shielded to some extent from market forces. Hence, the reform certainly did not result in a fundamental rethink on how farming could be best organised. Instead, it is a continuation of previous practises, which resulted in a tweaking not a reshaping of the CAP. Above all, agriculture happens in rural, and thus quite often in economically struggling areas. It therefore would make sense to view agricultural support from a spatial and not a sectoral perspective. It is a geographical area that requires financial support. Granted, farmers ought to benefit from any such support mechanism, but so could other businesses from manufacturing to services that are located in an area that might struggle to compete within the EU's Single Market. Hence, one might want to consider embedding the CAP as part of a wider cohesion strategy that might also encompass policies designed to improve rural development, infrastructure and transport or education in a holistic, and not a policy-sectoral fashion.

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[3] Beyond 2016, wine growers are still allowed to increase their capacity, but annual growth will be limited to one per cent.