THE COMMON AGRICULTURAL POLICY (CAP)

The Common Agricultural Policy (CAP) was proposed by the European Commission in 1960, three years after the signing of the Treaty of Rome, and adopted by the Council in 1962. The objectives of the CAP, set out in Article 39 of the Treaty of Rome, were:

- To increase agricultural productivity by promoting technical progress and ensuring the optimum use of the factors of production, in particular labor;
- To ensure a “fair standard of living” for farmers;
- To stabilize markets;
- To assure availability of supplies;
- To ensure reasonable prices for consumers.

The CAP initially addressed these objectives by moving towards self-sufficiency and food security through subsidizing of basic foodstuffs production. By the 1980s, this policy led to institutionalized surpluses of the major farm commodities, some of which were exported with expensive subsidies, others were stored or disposed of within the EU at considerable cost. Therefore, the CAP became progressively unpopular with consumers and taxpayers. Recognizing this, the Council introduced budgetary guidelines that set a maximum ceiling for the CAP budget. A limit was set on quantities guaranteed to receive support and a new policy was developed to encourage rural and less favored areas. In 1992, the “MacSharry reform” began the shift from support of agricultural production through prices to producer support through income. Direct payments were introduced in order to compensate farmers for the decrease of the price support. At the same time, the reform required farmers to set-aside a portion of their arable land as a supply side market management tool. The Agenda 2000 and 2003 CAP reforms deepened this strategy by encouraging farming decisions to be more influenced by market signals. The direct payments aim to guarantee farmers a reasonable income, and are often linked to compliance with broader objectives including standards on food safety, animal and plant health, animal welfare and the preservation of traditional rural landscapes. In January 2009, the Council adopted a mid-term review, commonly known as “The Health Check,” of the 2003 reform. The Health Check was the first part of the European Commission’s “one vision, two steps” approach to the CAP. The sec second step entails a further examination to be implemented after the 2013 financial perspectives. Currently, Commission proposals for adopting a CAP that will apply from 2014 are being reviewed by the Council and the Parliament.

The CAP after 2013

In 2005, the global EU budget was set for the 2007 to 2013 financial perspective. As such, the CAP is due to be reformed by the end of 2013. Current thinking among most decision makers is that the budget available for the CAP within the context of the Multiannual Financial Framework (MFF) for 2014 – 2020 must be known before concrete decisions on the Commission’s proposals can be made. Latest information suggests that the MFF will be decided upon in November 2012. On April...
12, 2010, Commissioner for Agriculture and Rural Development, Dacian Ciolos, launched a public debate on the future of the CAP after 2013. Contributions to the debate were accepted up until June 2010, after which the European Commission organized a conference aimed at drawing conclusions from the comments made. Within this framework, the Commission published its Communication entitled “The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future” on November 18, 2010. The Communication outlined broad policy options in order to respond to the future challenges for agriculture and rural areas, and to meet the objectives of the CAP, namely:

- viable food production;
- sustainable management of natural resources and climate action;
- balanced territorial development.

The document marked the beginning of a consultation process which allowed the Commission to prepare legislative proposals which were published on October 12, 2011. These proposals are subject to co-decision between Council and European Parliament. The reformed CAP should enter into force on January 1, 2014.

**Draft Legislative Proposals**

The main elements of the legislative framework for the CAP during the period 2014 – 2020 are set out with the following proposed regulations:

- Regulation of the European Parliament and of the Council establishing common rules for direct support schemes for farmers under the common agricultural policy and repealing Regulation (EC) No 73/2009 (the direct payments regulation);
- Regulation of the European Parliament and of the Council establishing a common organization of the markets in agricultural products (the Single CMO Regulation);
- Regulation of the European Parliament and of the Council on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (the rural development regulation);
- Regulation of the European Parliament and of the Council on the financing, management and monitoring of the common agricultural policy (the horizontal regulation);
- Council Regulation determining measures on fixing certain aids and refunds related to the common organization of the market in agricultural products;
- Regulation of the European Parliament and of the Council modifying Regulation (EC) No 1234/2007 establishing a common organization of agricultural markets and on specific agricultural products (Single CMO Regulation) as regards the regime of the single payment scheme and support to vine-growers.
A regulation is planned on the scheme for most deprived persons.

**Main Orientation of the Reform**

The structure of the CAP around two pillars that use complementary instruments in pursuit of the same objectives is maintained. Pillar I covers Direct Payments and market measures providing a basic annual income support to EU farmers and support in case of specific market disturbances. Pillar II covers Rural Development where Member States draw up and co-finance multiannual programs under a common framework.

Successive reforms of the CAP have increased market orientation for agriculture while providing income support to producers. The integration of environmental requirements and reinforced support for rural development has also been promoted. However, the reform process has also raised demands for a better distribution of support among and within Member States, as well as for a better targeting of measures aiming at addressing environmental challenges and better addressing market volatility. The Commission recognizes that pressure on agricultural income is expected to continue as farmers face more risks, a slowdown in productivity and a margin squeeze due to rising input prices. As such, the proposal addresses a need to maintain income support and to reinforce instruments to better manage risks and respond to crisis situations.

At the same time, agriculture and rural areas are being called upon to step up their efforts to meet ambitious climate and energy targets and biodiversity strategy that are part of the Europe 2020 agenda. Within this perspective, the proposal addresses the farmers’ need for support in adopting and maintaining farming systems and practices that are particularly favorable to environmental and climate objectives because market prices do not reflect the provision of such public goods.

**Key Aims of the Reform**

Commissioner Ciolos asserts that the key aims of the proposals are:

- More targeted income support in order to stimulate growth and employment;
- More responsive and adequate crisis management tools in order to meet new economic challenges;
- ‘Green’ payments for long-term productivity and for preserving ecosystems;
- Additional investment in research and innovation;
- A more competitive and balanced food chain;
- Encouraging agri-environmental initiatives;
- Aid for young farmers setting up;
- Rural employment and entrepreneurship stimulated;
- Better account taken of more vulnerable areas;
- A simpler and more efficient CAP.

To achieve these aims the **main elements of the reform** as described by the [Commission Press Release](http://example.com) of October 12, 2011, are as follows:
1. **Direct payments**

**Basic Payment Scheme:** currently, the Single Payments Scheme in the EU 15 allows for historical references, a payment per hectare, or a combination of the two. In most of the EU 12, the Simplified Area Scheme (SAPS) applies. The proposed reform introduces a new single ‘Basic Payment Scheme’ to apply after 2013. As is the case now, the scheme will be subject to ‘cross compliance’ (respecting certain environmental and animal welfare rules). All Member States will be obliged to move towards a uniform payment per hectare at national or regional level by the start of 2019. The national financial envelopes for direct payments will be adjusted so that those that receive less than 90 percent of the EU average payment per hectare will receive more. For example, if a Member State currently receives an average amount per hectare which is 75 percent of the EU average (i.e. below 90 percent), it would gradually increase to 80 percent. The Commission asserts that it is committed to discussing a longer-term objective of achieving complete convergence through the equal distribution of direct support across the EU in the next financial perspectives after 2020.

**Greening:** In addition to the Basic Payment, each holding would receive a payment per hectare for respecting certain agricultural practices beneficial for the climate and the environment. Although Member States will be obliged to budget 30 percent of the national financial envelope to finance this, it is understood that farmers are not obliged to take advantage of this measure. Greening will not be subject to capping.

The measures are:

- maintaining permanent pasture;
- crop diversification (farmers must cultivate at least three crops on the arable land, none accounting for over 70 percent of the land, and the third at least 5 percent of the arable area).

Maintaining an “ecological focus area” of at least 7 percent of farmland (excluding permanent grassland) i.e. field margins, hedges, trees, fallow land, landscape features, biotopes, buffer strips, afforested area. It should be noted that organic producers are considered to already provide ecological benefits and as such have no additional requirements.

**Areas with natural constraints:** Member States or regions may grant an additional payment for areas with natural constraints of up to 5 percent of the national financial envelope. This measure is optional.

**Young Farmers:** The Basic Payment to new entrant young farmers (those under 40) should be topped up by an additional 25 percent for the first five years of installation. This is limited to a
maximum of the average farm size in that Member State. For Member States where the farm size is small, the limit is 25 ha. This measure is funded by up to 2 percent of the national financial envelope.

**Small Farmers:** Any farmer claiming support in 2014 may decide by October 15, 2014, to participate in the Small Farmers Scheme and thereby receive an annual payment determined by the Member State of between Euro 500 and Euro 1,000. Participants will benefit from less stringent cross compliance requirements and will be exempt from greening. The total cost of the Small Farmers Scheme may not be more than 10 percent of the national financial envelope. There will also be Rural Development funding for advice to small farmers for economic development and restructuring grants with many such small farms.

**“Coupled” option:** Member States will have the option of providing limited amounts of payments linked to a specific product (“coupled” payments). This will be limited to 5 percent of the national financial envelope if the Member State currently provides 0 to 5 percent of coupled support, or up to 10 percent if the current level of coupled support is higher than 5 percent.

**Transferring funds between Pillar I and II:** Member States may transfer up to 10 percent of their national financial envelopes for Direct Payments (Pillar I) to their Rural Development (Pillar II) envelope. Member States that receive less than 90 percent of the EU average for Direct Payments may transfer up to 5 percent of their Rural Development funds to their Pillar I envelope.

**Cross-compliance:** All payments from the national financial envelope will continue to be dependent on a number of baseline requirements relating to the environment, animal welfare and plant and animal standards. By way of simplification, the number of Statutory Management Rules (SMRs) and rules on Good Agricultural and Environmental Condition (GAEC) has been reduced. It is also proposed that the Water Framework Directive and the Sustainable Use of Pesticides Directive will be incorporated into cross-compliance rules when it has been demonstrated that they have been properly applied in all Member States.

**“Capping”:** The amount of support that any individual farm can receive from the Basic Payment Scheme will be limited to Euro 300,000 per year, and the payment will be reduced by 70 percent for the part from Euro 250,000 to Euro 300,000, by 40 percent for the part from Euro 200,000 to Euro 250,000, and by 20 percent for the part Euro 150,000 to Euro 200,000. However, in order to take into account employment, the holding can deduct the costs of salaries in the previous year before these reductions are applied. The funds saved under this mechanism remain in the Member State concerned, and are transferred to the rural Development financial envelope for use as innovation and investment by farmers, and the European Innovation Partnership operational groups.

**Progressive reduction and capping of the payment**
The amount of direct payments to be granted to a farmer under this Regulation in a given calendar year shall be reduced as follows:

– by 20 % for the tranche of more than EUR 150,000 and up to EUR 200,000;
– by 40 % for the tranche of more than EUR 200,000 and up to EUR 250,000;
– by 70 % for the tranche of more than EUR 250,000 and up to EUR 300,000;
– by 100 % for the tranche of more than EUR 300,000.

“Active farmers”; The definition of “active farmers” is tightened up in order to exclude payments to applicants who have no tangible agricultural activity. The proposed definition states that payments would not be granted to applicants whose CAP payments are less than 5 percent of total receipts from all non-agricultural activities.

Eligible hectares: The rules foresee setting 2014 as a new reference year for land area, but there will be a link to beneficiaries of the direct payments system in 2011 in order to avoid speculation.

2. Market management mechanisms

The existing systems of public intervention and private storage aid will be revised to be more responsive and efficient to help producers at times of market difficulties. A new safeguard clause is introduced for all sectors to enable the Commission to take emergency measures to respond to general market disturbances.

The sugar quota system should expire on September 30, 2015. For the period after quotas, white sugar will become eligible for private storage aid, and standard provisions for agreements between sugar factories and growers should be established.

The School Fruit Scheme and the School Milk Scheme are to be extended. The texts also reflect existing proposals on dairy (compulsory written contracts and strengthened bargaining power in the food chain) and on quality marketing standards (including the ‘place of farming’ concept).

To improve farmers’ negotiating position in the food chain, the Commission is looking for a better organization of the sectors. Rules related to the recognition of Producer Organizations (POs) and inter-branch organizations are expanded to cover all sectors, with further options for establishing POs now transferred to Rural Development funding. A number of minor schemes (including aid for incorporating Milk Powder into animal feed, coupled aid for silkworms) are abolished.

3. Rural Development

U.S. Mission to the EU – Foreign Agricultural Service
The European Agricultural Fund for Rural Development (EAFRD) will fit into the new Common Strategy Framework also applicable for the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesions Fund (CF) and the European Maritime and Fisheries Fund (EMFF) in order to achieve the objectives of the Europe 2020 strategy (Sustainable Growth, SMART Growth, Inclusive Growth). Targets will be set for all Rural Development programs for the following six priorities:

- Fostering knowledge transfer and innovation
- Enhancing competitiveness
- Promoting food chain organization and risk management
- Restoring, preserving and enhancing ecosystems
- Promoting resource efficiency and transition to low carbon economy
- Promoting social inclusion, poverty reduction and economic development in rural areas.

Although the current three axes linked to economic, environmental and social issues will be replaced by these six priorities, the basic idea of multi-annual schemes designed and co-funded by Member States (or regions) is retained. Member States are still required to maintain 25 percent of their Rural Development financial envelope on issues related to land management and actions against climate change.

In budgetary terms, there will be a small change in the distribution of Rural Development national financial envelopes to take account of objective criteria to be fixed by the Commission under its own competence at a later date.

**Initial Reactions**

During a Press Conference convened at the European Parliament on October 12, 2011, Paolo De Castro (Italy, Social Democrat, Chairman of the European Parliament’s Committee on Agriculture and Rural Development), pledged to make full use of the Lisbon Treaty to ensure that the Parliament influences the proposals put forward by the Commission in its 600 page document so that the CAP emerges as a stronger policy. While welcoming the greening element of the proposals, he underlined that the system could not work without economic stability.

Luis Manuel Capoulas Santos (Portugal, Social Democrat, Member of the Committee, Rapporteur for the direct payments and rural development regulations) asserted that the proposals were an acceptable basis for discussion, but underlined the disconnect between the objectives and the means. An appropriate budget was necessary in order to achieve the aims outlined in the proposals. Santos expressed the view that a central theme of the proposals, namely to correct the imbalance in granting of aid between the old and the new Member States, would take several years to achieve. As such, the Commission was being too timid. Furthermore, given the predominance of price volatility, there were insufficient proposals for market regulation.
Michel Dantin (France, Christian Democrat, Member of Committee, Rapporteur for the Single CMO regulation) recalled that the Parliament had over two years to work on the proposals. He expressed the view that the Common Market Organization needs to take greater account of environmental issues while ensuring competitiveness. Harmonization of the direct aid calculation method under Pillar I was the key. Crisis management tools needed to be expanded and strengthened.

Giovanni La Via (Italy, Christian Democrat, Substitute Member of Committee, Rapporteur for the horizontal regulation) felt that there was little new in the proposals, and encouraged a stronger cohesion and regional policy.

Reactions outside Parliament saw then French Agriculture Minister, Bruno Le Maire, asserting that tying the grant of 30 percent of support to a mandatory implementation of ecological practices did not meet the objectives sought. His Italian counterpart, Saverio Romano, is reported to have said that these obligations represent ‘...new expenditure for companies and a heavy burden of bureaucracy without bringing any real benefits’. Gerd Sonnleitner, President of the European Farmers’ Organisation, Copa, criticized the ‘...additional constraints imposed on farmers’.

Committee of the Regions President, Mercedes Bresso, announced that she was ‘not satisfied’ with the proposals, although she welcomed the conditionality associated with the payment of aid for environmentally-friendly farming practices.

Environmental NGOs considered the ‘greening’ element in the Commission’s proposals to be inadequate. The World Wildlife Fund stated that ‘...the least progressive views in the Commission, European Parliament and Council’ had prevailed.

As regards the rebalancing of direct payments between Member States over a 14 year period, Poland’s Agriculture Minister, Marek Sawicki, described the proposal as a ‘joke’ and expressed the view that the measure was totally insufficient. Then Spanish Minister, Rosa Aguilar, voiced her ‘rejection’ of the Commission’s proposals, describing them as ‘disappointing’. More specifically, Spain is against abandoning the historic references used by several Member States to calculate direct aid, and is also of the view that the proposed level of 30 percent of aid for greening will have to be reexamined.

The European sugar beet farmers (CIBE) are reported to be ‘outraged’ and sugar manufacturers (CEFS) ‘deeply concerned’ over the Commission’s decision to abolish the quota system in 2015, rather than in 2016 as initially planned.

The European Federation of Origin Wines (EFOW) strongly objected to the Commission’s confirmation of the elimination of planting rights from January 1, 2016, ‘despite the strong position taken by 12 Member States and the European Parliament against the liberalization of this scheme’.

**CAP Health Check**

EU Agriculture Ministers reached a political agreement on the Health Check of the CAP at the
The Agriculture Council meeting of November 18-20, 2008 and adopted it at the Council of January 14, 2009. The European Commission noted that the CAP Health Check exercise was to pursue three main objectives: 1) improve the single payment scheme, 2) modernize agricultural market management tools, and 3) respond to the new challenges of climate change, bioenergy production, water management and the preservation of biodiversity.

The principal elements of the CAP Health Check were as follows:

**Grains**

**Abolition of set-aside:** the requirement for arable farmers to leave 10 percent of their land fallow is to be abolished with effect from MY 2008/09. It is interesting to note that it is the set-aside mechanism that was abolished as opposed to the rate of set-aside being set at 0 percent. This implies that set-aside is no longer to be considered as a supply-side management tool. In practice, the area of land liberated from the set-aside obligations amounted to between 1.2 and 1.6 million ha (given a theoretical available area of some 4 million ha, a maximum of 40 percent of which could return to crops the remainder being marginal land).

**Intervention mechanisms:** intervention was set at 0 for durum wheat (with effect from MY 2009/10), rice (with effect from MY 2009/10), barley and sorghum (with effect from MY 2010/11). For soft wheat, intervention purchases are possible during the intervention period from November 1 to May 31 at a price of €101.31 per MT up to 3 million MT. Beyond that, intervention buying-in is made via bids under a tender system (with effect from MY 2010/11). Monthly increments also ceased from July 2010. Although not part of the Health Check exercise, it should be recalled that intervention for corn (maize) was phased out from MY 2009/10 onwards (via the setting of a 0 threshold), having been subject to a ceiling of 1.5 million MT in MY 2007/08 and a subsequent ceiling of 700,000 MT in MY 2008/09. As such, although thresholds set at 0 for durum wheat, rice, barley and sorghum, the intervention mechanism for these products will be maintained as a market management instrument as is the case for corn.

**Decoupling of support:** aid for arable crops, durum wheat and hops are decoupled from January 1, 2010. Decoupling of aid for the processing of dried fodder took place on April 1, 2012. The Commission will draw up a report by December 31, 2012 on the progress of the Health Check particularly with regards to progress towards decoupling.

**Dairy**

**“Soft Landing” of Dairy Quota:** Ministers agreed to the Commission’s original proposal of five consecutive 1 percent quota increases from 2009 to 2013, before the expiration of the dairy quota
regime in 2015. Italy was allowed to front-load its five annual increases as one single 5 percent increase in 2009/10. However, for the quota years 2009/10 and 2010/11, the super-levy rate was increased to 150 percent of the standard rate for any producers who produce over 6 percent more than their quota (as a deterrent against Italy abusing of its front-loading privilege and still widely producing over its milk quota).

Dairy intervention and Private storage Aid (PSA): Ministers further rejected reforms to the intervention system for butter and skimmed milk powder. Buying-in of butter and skimmed milk powder (SMP) will continue at fixed intervention prices during the intervention period from March 1 to August 31 up to a maximum quantity of 30,000 MT of butter and 109,000 MT of SMP. The tool of Private Storage Aids (PSA) for butter is also maintained. The tools of disposal aid for using SMP in feed and in casein/caseinate production are maintained but the system is changed insofar as the Commission will now decide on opening these instruments on the basis of market prices. The PSA for cheese, as well as the aid schemes for the use of butter in pastries and ice cream and for direct consumption are to be abolished.

Fat Coefficient: Adjustments to the butterfat coefficients through Management Committee decisions have also been accepted.

Aid for Least Favored Areas (LFA): While no new money is being provided for a Milk Fund, as requested by Germany, the agreement nevertheless provides that a reserve of 0.5 percent of the national envelope is maintained to help dairy farmers in Least Favored Areas (LFAs) under the Rural Development program, instead of through the new Article 68. This money would be sourced from the unused amounts from the national envelopes.

Additional Modulation

Before the Health Check, all farmers receiving more than €5,000 in direct aid have their payments reduced by 5 percent, and the money is transferred into the Rural Development budget. This rate was increased to 10 percent by 2012. An additional reduction of 4 percent is made on payments above €300,000 per year. The funding obtained this way may be used by Member States to reinforce programs concerning climate change, renewable energy, water management, biodiversity, innovation linked to these points and for accompanying measures in the dairy sector. This transferred money is co-financed by the EU at a rate of 75 percent and 90 percent in convergence regions where average GDP is lower.

Cross Compliance

One of the aims of the Health Check was to simplify the cross compliance rules (whereby farmers are obliged to respect environmental standards, animal welfare and food quality standards, non-respect of the rules resulting in cuts in their support) without diminishing their scope. Considerable criticism of the way cross compliance has been applied is soon to be published in a Report from the
Court of Auditors. The institute for European Environmental Policy has pointed out that the cross compliance requirements are actually no stricter than already existing requirements by the EU and Member State laws.

Despite the criticism there was no serious discussion over the cross compliance issue, although the Council and the Commission declared that “the work will continue with the objective of obtaining further simplification for farmers as well as national administrations regarding the application of requirements on cross compliance”.

The list of legislative texts setting conditions for payment of the full amount of Community aids was adapted during the meeting.

One aspect of the cross compliance system is Good Agricultural and Environmental Condition (GAEC). It was decided that GAEC standards including:

- retention of terraces,
- standards for crop rotation,
- appropriate machinery use,
- minimum livestock stocking rates or/and appropriate regimes,
- establishment and/or retention of habitats,
- prohibition of the grubbing up of olive trees,
- maintenance of olive groves and vines in good vegetative condition,

were to be optional except where a Member State had defined for such a standard a minimum for GAEC before January 1, 2009, or where rules addressing the standard are applied in the Member State in accordance with national provisions.

A full summary of the measures is also available on the European Commission DG Agriculture website.

2003 CAP Reform Agreement

The legal texts of the 2003 CAP Reform Agreement which were adopted by the Agriculture Council of September 2003 were published in the following month. The reform was implemented with effect from 2004 although Member States had the option of delaying implementation of some of the decoupling measures until 2008.

The philosophy underlying the reform was to move away from production-based subsidies to those decoupled from production. Fully decoupled payments were aimed at in order to classify a significant part of EU farm subsidies from the WTO Blue Box (trade distorting measures that are allowed within specified limits) to the Green Box (non-trade distorting measures).

The key elements of the reform were:
• the Single Farm Payment (decoupling),
• horizontal measures,
• rural development policy,
• market measures.

**Single Common Market Organization (CMO)**

*Council Regulation (EC) 1234/2007* establishes a single common market organization (CMO) for agricultural products and replaces the previously existing individual product CMOs. The Regulation, which entered into force on July 1, 2008, combines and harmonizes as far as possible the market measures applying to various agricultural products. More specifically, such measures include intervention, private storage, marketing and quality standards, import and export rules, safeguard measures, competition, state aid and data reporting.

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