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Returning meaning to the Common Agricultural Policy

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Whereas the European Commission has just launched a consultation on the Common Agricultural Policy (CAP) for future budgetary planning of the European Union (post 2020), the reasons for disenchantment with regard to this policy should be considered, for this is a policy that is less and less well understood by many farmers and by the general population. Account should then be taken of the constraints to which the CAP is subject, before looking at the directions that could be taken to restore the confidence of Europeans in this European policy by returning meaning to it.

1. DEVELOPMENTS IN THE CAP OVER THE PAST 25 YEARS

To understand the current malaise, it should be remembered how the CAP has evolved since the first major reform that took place in 1992, which consisted of a fall in the prices of the main productions supported by the European Union, notably cereals and beef, compensating these reductions by fixed amounts of aid. The aim of the 1992 reform was mainly to facilitate the conclusion of the Uruguay round of multilateral trade negotiations. This round came to an end in 1994 with the Marrakech agreement, which gave rise to the birth of the World Trade Organisation (WTO) and resulted in the suppressions of variable levies on agricultural products imported into the European Union from third countries. Variable import levies had been the main tool of community preference, because they sheltered European farmers from fluctuations in agricultural prices on the international markets. Variable levies were replaced by fixed customs duties which were then reduced.

The fall in prices continued until 1999 and was extended to the dairy sector with the prospect of later suppression of quotas, but this time it was only partially compensated by direct aid payments, still fixed, which are very different from the American compensatory payments ("deficiency payments") implemented during the great depression of the 1930s. Deficiency payments have been maintained by the United States up until now, even though they do not comply with the rules of the WTO. They have a major advantage compared to the fixed European payments because they are contra-cyclical and adapt to fluctuations in agricultural prices on the international markets, by compensating for price reductions and thus preserving the income of American farmers.

The year 1999 was also marked by the creation of a second pillar in the CAP, comprising various measures, the drafting and management of which were entrusted to Member States, within the context of national or regional rural development programmes. The European Agricultural Guarantee Fund (EAGF) was split to create the European Agricultural Fund for Rural Development (EAFRD) which co-finances the measures of the second pillar, jointly with Member States and, in some cases, the regions.

The second major reform of the CAP was decided in 2003 and resulted in the total or partial separation, depending on the options taken by Member States, of direct aid payments from productions, to which they had been linked since the 1992 reform, and their grouping into a single payment per farm, the amount of which is calculated per hectare. The aim of this separation was to facilitate an agreement on agriculture at the WTO in the so-called "development" cycle of multilateral trade negotiations started in November 2001 in Doha and which, on the date of writing at the beginning of 2017, has yet to be completed. Allocation of the single payment to farmers is now subordinate to compliance with around twenty directives and regulations: this is what the European Commission calls "conditionality", and it generates a heavy administrative burden for farmers.

Separation continued during the 2008 review, qualified as the "CAP health check" by the Commissioner for Agriculture and Rural Development of the time, Mariann Fischer Boel.

Between 2003 and 2008, the European Union witnessed its biggest enlargement, welcoming Central and Eastern European countries where agriculture was a long way behind in terms of modernisation, due to the communist dictatorships of the past.

In 2007, the European Commission regrouped Common Market Organisations (CMO) by products and groups of products, which had been the basis for the CAP since its establishment in 1962, into a single CMO.

The latest development in the CAP took place in 2013, within the context of preparation of 2014-2020 budgetary programming. Its principle measure was the greening of the CAP which consists of reserving 30% of direct aid for a green payment, allocation of which depends on compliance with three conditions: the maintenance of permanent grassland, crop diversification and the reservation of at least 5% of arable land for "ecologically focus areas" , such as hedges.

Finally, the end of milk quotas, decided in 2008, came into effect in 2015.

2. A WEAKENED CAP THAT IS INCREASINGLY DIFFICULT TO UNDERSTAND

The various reforms of the CAP did indeed encourage European farmers to adapt to the markets and take better account of the environment – but they weakened the CAP.

They did not return coherence to this European policy either and it has been made increasingly difficult to understand.

Thus, whereas for about ten years prices of cereals and milk have been subject to strong fluctuations, the amount per hectare of direct aid received by farmers is always the same, whether prices are high or low. Direct aid does not therefore, due to its rigidity, play the role of shock-absorber for farm incomes, unlike the contra-cyclical payments of the American agricultural policy.

In the absence of any kind of degression, other than symbolic, of the total amount of direct aid paid per farm[1], less than 20% of European farms receive over 80% of this aid. Differences have increased considerably with the German reunification and the EU enlargement to include Eastern European countries, because large-scale farms inherited from the Communist era, which are often over a thousand hectares in field crops (cereals, rape, sugar beet) or over a thousand dairy cows, are numerous in these countries, where they operate alongside extremely small farms created from individual plots with only a few hectares. How can one justify the fact that farms with a thousand cows receive nearly 20 times more public aid than average-sized family farms (50 cows), which are endangered due to the low price of milk caused by the dairy crisis of 2015 and 2016, which occurred after quotas disappeared? This is even less justifiable when one considers that, as pointed out Jean-Charles Munch, professor at the Munich technological university in the letter dated 1st December 2016[2] of the French Academy of Agriculture, these major agro-industrial farms feed their animals with genetically modified plants imported from Latin America, use massive amounts of antibiotics and pollute the land and water with excessive amounts of nitrogen and phosphorus. Also, the absence of degression in aids, encourages the race towards increasingly large farms, to the detriment of valorising production and therefore jobs in agriculture.

The recent milk crisis has shown that the departure from milk quotas was poorly prepared and poorly managed due to the quotas not being replaced by more flexible production regulation tools that could have been mobilised in due time. We thus moved from a rigid quotas system to a competitive regime with no safety nets. Although stabilisation of the markets is

1. The reduction is 5% beyond €150 000 per farm, and direct aids currently represent over 2/3 of the CAP budget.

2. "Avis et craintes sur le développement de la production animale et laitière en Europe" by Jean-Charles MUNCH. Lettre de l'académie d'agriculture de France, n° 36 dated 1st December 2016.

still amongst CAP objectives as set forth in the Lisbon treaty, this would appear to have been ignored by the European Commission. And yet it is indeed the specific characteristics of agriculture, i.e. atomisation of offer, inelasticity of demand, vagaries of climate, health risks and the time required to adapt offer to demand, which provoke the structural instability of agricultural markets and justified the implementation of the American agricultural policy during the great depression of the 1930s and that of the CAP as soon as the Common Market was created in Europe.

Farmers are in a position of weakness compared to their powerful partners in the food industry and even more so the major retailers: they are subjected to price reductions which are passed from the retailers downstream to the farms upstream via processing companies. It should however be noted that an opening has been made, due to an initiative by the previous Commissioner for Agriculture and Rural Development, Dacian Ciolos: the possibility of setting up producer organisations in all productions and the recognition of inter-professional bodies at European level.

As for the piling up of European regulations, this places a heavy administrative burden on farmers and obliges them to make costly investments in order to meet the demands of conditionality, whereas these regulations are in many cases not adapted to the diversity of local situations and should not be required at community level.

3. A CAP SUBJECT TO MAJOR CONSTRAINTS

The CAP is subject to both internal and external constraints.

The first of these constraints is of a budgetary nature. The extension of application of the CAP to include farmers in Central and Eastern Europe took place without any increase being made to the budget of this policy, the amount of which has even been reduced in 2014-2020 programming. Farmers from the new Member States now benefit from the same unitary amounts of direct aid (per hectare) as farmers in established Member States, whereas their production costs are much lower due to differences in GDP per inhabitant[3]. A fact which goes a long way to explain the spectacular increase in farm incomes, which have more than doubled over the last decade in several Central European countries[4]. The new Member States have also benefitted extensively from EAFRD credits and from structural funds to modernise their agricultures and their food industries.

The United Kingdom's forthcoming departure from the European Union will deprive European countries that are hostile to the CAP of their leader, but will also complicate budgetary balancing for post 2020 financial planning, since it will lead to a net loss of income estimated at around €10 billion in the European budget. Should cuts be necessary in the European Union budget to make up for this loss of income, the CAP could be a victim[5]. Moreover, even before the British referendum a document by France Stratégie[6] asked the following question regarding the structure of community spending "Should we, for example, challenge the common agricultural policy and head towards more diverse national policies, within the context of common competition rules?"

Another constraint is the rigidity of the community budget, which does not permit the implementation of contra-cyclical payments similar to those that exist in the United States, because their financing would imply inter-annual flexibility of the budget.

The diversity of European agricultures, which successive enlargements have increased still further, and the divergence of interests between Member States, which the departure of the United Kingdom will only reduce in part, complicate the running of the CAP and make desirable developments, such as the degression of direct payments depending on the size of farms, difficult.

The pressures exercised by the numerous lobbies hostile to the CAP, which gravitate around the European Commission, have pushed the latter to propose and make Member States adopt regulations that are restrictive for farms, particularly in terms of the environment and animal well-being, which are poorly adapted to the great diversity of their situations.

3. *The GDPs per inhabitant of new Member States are on average half as high as those in established Member States.*

4. *See Bernard BOURGET, Les défis de l'Europe verte, essai sur la politique agricole commune L'Harmattan, 2011, p. 42-43.*

5. *Refer to Jörg HAAS and Euralio RUBIO, "Brexit et budget de l'UE : menace ou opportunité?" Policy Paper, Jacques Delors Institut Berlin et Bertelsmann Stiftung, 16th January 2017.*

6. *"Europe: sortir de l'ambiguïté constructive?" France Stratégie, May 2016.*

The preponderance of the powerful directorate general for competition within the services of the Commission is an additional handicap for the CAP.

External constraints within the context of the WTO and the bilateral trade agreements currently being negotiated are added to these internal constraints.

The European Commission is keen to be a good player within the WTO and complies scrupulously with all its rules, whereas other members of the WTO, particularly the United States, have no hesitation in departing from them. Some of these rules are extremely limiting, such as those relating to the public financing of mutual funds which seek to attenuate any loss of farmers' incomes due to big reductions in agricultural prices. In fact, an agricultural income stabilisation fund can only be classed in the WTO's "green box" if income reductions are, as an inter-annual average (over 3 years or 5 years after dismissing the highest and lowest reduction), greater than 30% and compensation must not exceed 70% of losses of income.

The European Union, which is the world's leading importer of agricultural products, is extremely tempting for major exporters, particularly the United States, Brazil or Argentina, such that, in the bilateral trade negotiations started between the European Union and those countries, beef is considered as a currency along with industrial products, to the detriment mainly of France, which is Europe's top producer country of meat from specialised herds.

4. ROUTES TO IMPROVEMENT, TO RE-ESTABLISH CONFIDENCE IN THE CAP

Despite the major constraints that weigh on the CAP, there are margins for manoeuvre to improve this policy and return confidence to farmers and the general population of Europeans.

The method to follow should give priority, wherever possible, to financial incentives in comparison with regulations and the application of the principle of subsidiarity in order to take better account of the great diversity of farms and local situations.

Firstly, measures in favour of farming in mountainous and fragile areas should be reinforced. This could include payments to compensate for natural handicaps, which have already shown proof of their utility. Stout defence is also required during multilateral and bilateral trade negotiations of Protected Geographical Indications (PGIs) and Protected Designations of Origin (PDOs).

Greening of the CAP must then be widened and improved on several points:

- by leaving more room for measures in favour of the combat against climate change, such as support for the growing of legumes, which are nitrogen-fixing plants; this would also be important in the reduction of the too-great dependency of the European Union on imports of soya and soya meal for animal feed from North and South America.
- by ensuring that crop rotations are effective on all cultivated land.
- by replacing the obligation to maintain grassland, which is too rigid, by a bonus for grass and fodder crops, including legumes, which would be capped according to the number of animals per hectare and financed by redeployment of some of the basic direct payments.

True degression of the total amount of direct payments per farm, according to their size, would make distribution fairer and put the brakes on the race towards ever bigger farms. This degression would be essential in order to ensure the survival of average-size family farms, should the CAP budget be amputated in order to compensate in part for the loss of EU income resulting from Brexit.

Moreover, advantage should be taken of harmonisation of the conditions for allocation of direct payments between the farmers in the new Member States, who benefit from a simplified regime through until 2020, and those of the other Member States, in order to extend simplification to all farmers in the European Union.

The other major route for improvement of the CAP should concern the markets, in order to organise them better and remedy their shortcomings.

The European Commission must improve the way in which it tracks the markets, and trigger measures preventively to avoid the collapse of prices, such as the recent aids for temporary reduction of milk production, which were unfortunately decided much too late.

Inter-professional bodies must be supported in terms of their dialogue and coordination between stakeholders in the same sector, their anticipation and monitoring of market developments, the diffusion of innovations with the support of technical institutes and promotion of their sectors.

Farmers' negotiating power with their partners amongst the food industry and major retailers must also be reinforced, by providing producer organisations, particularly agricultural cooperatives and their associations, with the means by which to fulfil their missions.

To enable farmers to act collectively, faced with the volatility of prices and in application of the principle of subsidiarity, Member States who so wish should be allowed to top up by national credits, within the limit of the "de minimis"[7] clause (whilst waiting to be able to modify the rule of the WTO to make it less restrictive), the income stabilisation funds which would be set up by farmers, transferring to them all or some of their direct payments. To do this the European Commission and interested Member States could take their inspiration from the "AgriStability" programme set up in Canada[8].

It would now appear time to group together the two pillars of the CAP and the two funds that finance them (EAGF and EAFRD) because their separation has lost its relevance now that Member States can transfer some of the credits from one to the other, in either direction.

Finally, it would be desirable to extend European programmes in support of the consumption of milk and fruit in schools to include vegetables, in order to encourage children to enjoy a balanced diet.

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The CAP was the first European policy. It has succeeded well in the missions entrusted to it by the Treaty of Rome, contributing both to the modernisation of agriculture and guaranteeing consumers the supply of foodstuffs at reasonable prices. But it has been weakened by a series of reforms and successive enlargements of the European Union and has become more difficult to understand.

It is subject to major constraints and is the object of criticisms that are often contradictory. Nevertheless it can regain the trust of both farmers and the general European population if it heads along the routes outlined in this note to meet the new challenges it faces.

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7. The "de minimis" clause allows WTO Member States to grant aid to their farmers which is not classed in the "green box" where the total amount of such aid does not exceed 5% of the value of the country's agricultural production.

8. See Les défis de l'Europe verte, op. cit., p. 64. et http://www.agr.gc.ca/eng/?id=1291990433266

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