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# The Common Agricultural Policy and the challenge of subsidiarity

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*Whilst the largest countries, notably the USA, Russia and China, are strengthening their agricultural policies, the future of the Common Agricultural Policy (CAP) is under challenge again, with the Commission's proposal for the period 2021-2027. This provides for a reduction in the CAP budget and the extended implementation of the subsidiarity principle, without however the definition of content or limits. The European Parliament, which contributed greatly to improving the organisation of the markets and to strengthening producers' negotiating powers in the food chain during the last legislature, which is now about to end, might again have a key role to play in negotiations over the future CAP after its renewal and over that of the European Commission.*

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Will the choices made regarding the Common Agricultural Policy (CAP) for the period 2021-2027 be part of the continued dismantling of this European policy or will they help provide it with meaning again[1]? This is the question that has been raised once more since the draft CAP regulations were unveiled by the European Commission on 1st June 2018, i.e. barely one month after the presentation of the EU's draft 7-year multiannual financial programme.

The draft regulations that are currently being assessed by the European Parliament and the Council of Agriculture Ministers have been criticised mainly because:

- The reduction of appropriations allocated to the CAP to the order of 5% in current euro, i.e. around 12% in constant euro, would in particular penalise the second pillar (rural development);
- The transfer over to the Member States of the drafting of the implementation measures of the CAP as part of a strategic plan for each of them;
- Inadequate consideration of the environmental and climatic issues.

## 1. PRIORITIES TO ESTABLISH IN THE HYPOTHESIS OF A REDUCED CAP BUDGET

Many have expressed their wish to maintain CAP appropriations at least in current euro in the next budgetary programme. This will be difficult task

due to the budgetary consequences of Brexit, the determination of Member States from the North of Europe not to increase the EU budget and new priorities, notably regarding security and migration.

The reduction in CAP spending therefore seems likely. In a decreased CAP budget put forward by the European Commission, choices are to be made which are either unclear or unjustified.

Hence although the proposal to reduce direct payments as of 60,000€ and to cap payments over 100,000€ per holding to guarantee a fairer distribution of these payments is perfectly justified, their redistribution in each Member State is not in terms of a policy that still claims to be "common". The savings made by the reduction of direct payments and their capping, in the case of large farm holdings should rather be used to protect the amounts attributed to small and medium holding across the entire European Union.

In a study published before the 2013 reform Louis-Pascal Mahe[2] recalled that the convergence of direct payment levels per hectare between the new Member States of Central and Eastern Europe and the old Member States should only be made gradually and remain in line with the convergence of the per capita GDP to prevent the creation of undue incomes. And yet the gap between the revised GDP per capita in 2017[3] are still significant. However, whilst the GDPs per capita (in PPP – Purchasing Power Parity) were respectively 32,300€ in France and 11,800€ in Poland and Hungary in 2017, the levels of direct payments per hectare in

1. See the Robert Schuman Foundation; European Issue 422, "Returning meaning to the Common Agricultural Policy", 20th February 2017.  
2. (Does the draft CAP post 2013 announce "major" reform?) Le projet d'une PAC pour l'après 2013 annonce-t-il une « grande » réforme ?  
3. See "Permanent Atlas of the European Union", Robert Schuman Foundation, Editions Marie B, 4th edition, October 2018

specialised cereal and oilseed holdings in these three countries were the same as of 2016[4], at around 250 € per hectare. It seems that the convergence of direct payments between the new and old Member States is almost complete, whilst the gap between the GDPs per capita are still considerable. It would appear then that a readjustment of direct payment amounts granted to farmers from the new Member States, taking on board GDP per capita levels, is necessary, in a way that their counterparts in the old Member States would not be penalised in the context of a reduced CAP budget.

It should be recalled that since their accession to the European Union the new Member States have, quite rightly, been the main beneficiaries of European appropriations to modernise their agriculture and food industries, either as part of the 2nd CAP pillar (rural development programmes), or the structural funds (FEDER and the Cohesion Fund).

As for the additional 10 billion € put forward as part of the Horizon Europe research programme, in support of specific research and innovation work in the areas of food, agriculture, rural development and bio-economy, this should help towards speeding up the agroecological and digital transition of European agriculture.

## 2. GREATER CAP SUBSIDIARITY TO CLARIFY AND MANAGE

Subsidiarity[5] has applied to the CAP since the creation of the second pillar in 1999, which finances national and regional rural development programmes.

It was progressively extended as of 2003 to direct payments, which comprise the greater part of appropriations in the first CAP pillar, by offering Member States a considerable flexibility to implement the uncoupling of direct payments from production, which could be either total or partial. The new Member States which joined the European Union in 2004, 2007 and 2013, benefited from a simplified direct payment/hectare system.

The possibilities for adaptation on the part of the Member States regarding the management of

increasingly uncoupled direct payments were extended under the CAP health-check of 2008. It allows them to maintain coupled aid for some specific products, like beef in France and to redistribute a share of the direct payments beyond the original sector. Hence, some appropriation transfers have been undertaken in France from key cereal and oilseed cultivation to grass-fed cattle. Then the 2013 reform enabled Member States to redistribute a share of the direct payments to small holdings and to transfer appropriations from the first CAP pillar to the second and vice-versa. Some dismissed this deeming that the CAP acronym no longer meant "common agricultural policy" but "à la carte agricultural policy".

The European Commission's leading measure for the period 2021-2027 goes much further in terms of subsidiarity by allowing each Member States to draft a comprehensive strategic CAP plan in which it can adapt tools to its own specific requirements.

The application of the subsidiarity principle to a share of the CAP, to take on board the diversity of European agriculture and different Member States' interest cannot be contested, on condition that measures whose effectiveness is better as part of a common management than when they come under the responsibility of each Member State are maintained at European level.

This is the case in terms of the environment, because the combat to counter climate change and to protect biodiversity requires Europe-level governance and finance, whilst the handling of various, occasional soil, water and air pollution would be better managed by the Member States and their regions.

A clear distinction between the CAP measures, which have to remain at European level and those which can be granted to the Member States, is therefore necessary.

We also have to look into the ability of certain new Member States to draft coherent strategic plans that are in line with the CAP common goals, as well

4. « L'évolution des aides directes aux exploitations des grandes cultures dans l'Union européenne : l'impact des choix nationaux », a study undertaken by Pluriagri based on the agricultural accounting information network and presented by Bénédicte Carlotti, on 20th June 2018 at the seminar organised in Montpellier by the French association for the rural economy on agricultural and food policies

5. "Under the principle of subsidiarity, in areas which do not fall within its exclusive competence, the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level." (definition of the European Commission's "subsidiarity and proportionality" task-force)

as that of the Commission to enforce the respect of the commitments that will be taken in these various national plans.

The Common Agricultural Policy cannot be the simple juxtaposition of 27 national plans.

Some members of the European Parliament, which has only been competent for the first CAP pillar since the Lisbon Treaty, fear that they will lose a share of their prerogatives if the negotiation of national plans occurs directly between the Commission and each of the Member States.

### **3. THE EXTREMELY POSITIVE ROLE OF THE EUROPEAN PARLIAMENT FOR THE IMPROVEMENT OF THE COMMON ORGANISATION OF THE MARKETS AND PRODUCERS' NEGOTIATING POWER**

The European Commission's proposals regarding the organisation of the markets comes under the extension of the measures that have just been adopted for the agricultural sector in the so-called "omnibus" regulation, thanks to extremely active participation by some MEPs, notably Michel Dantin (EPP, FR).

These measures mainly aim to improve the position of farmers in the food value chain:

- By granting an individual right to the contract written for the farmers;
- By strengthening the negotiation capability of producer organisations, which will now be able to plan production and negotiate volumes and prices;
- By allowing inter-professions to negotiate clauses involving contractual added value sharing and its development.

The European Commission's draft directive for the improved management of business practices and the prohibition of some others, which has just been agreed between the Member States and the European Parliament, is a move in the same direction. It aims to guarantee fairer conditions for farmers and for small and medium sized agri-food businesses in the supply chain by banning practices, such

as the payment of perishable products over 30 days after their delivery, the unilateral change of contract terms by the purchaser or the short-term cancellation of orders.

Regarding the management of climate risks, the "omnibus" regulation reduces the threshold to trigger climate insurances and the new sectoral instrument for the stabilisation of revenues from 30% to 20% of revenue losses on the part of the farmer.

For the next multiannual financial programme 2021-2027, the European Commission is suggesting that Member States extend – if they deem it necessary – the operational programmes that existent for fruit and vegetables, wine and olive oil to other sectors, such as cereals and meat.

For the crisis reserve, whose total of 400 million € per year might seem insufficient to overcome a major crisis, the Commission is suggesting transferring unused funds over into the next year. It is hoped that there will not be a serious agricultural crisis over the next few years, so that funds can be transferred for the constitution of an adequate reserve to be prepared for any subsequent crisis.

Whilst the stabilisation of agricultural markets is still a CAP goal in the Lisbon Treaty, the Commission does not seem to have learnt from the serious dairy crisis that the EU experienced in 2015 and 2016. To the extent that the EU is, alongside the USA and New Zealand, one of the biggest operators on the narrow international dairy product market, the control of its production is vital to prevent price collapses and the constitution of excessively high intervention stocks in the event of over production. It was, incidentally, the introduction of a voluntary system to reduce production that led to the end of the crisis, but this measure came too late, since there were already significant intervention stocks of powdered milk which then took a long, costly time to absorb. This is why it would be useful to re-introduce this system to reduce production and to trigger it as soon as market prices are close to, but slightly higher than, intervention prices (by 10 to 15%), to prevent stockpiling. Dutch farmers should be sanctioned since they did not respect their commitments and were guilty of major fraud as they increased their milk production, which significantly worsened the crisis.

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**4. THE ENVIRONMENT AND THE CLIMATE: THE CAP MUST FACILITATE THE AGROECOLOGICAL TRANSITION OF FARMING**

The main innovation of the 2014-2020 CAP programme was the greening that comprises reserving 30% of direct aid for green payment, the attribution of which is subordinate to the respect of three conditions: the upkeep of permanent prairies, the diversification of cultivation and the reservation of at least 5% of arable land for areas of ecological interest, such as hedges and ponds.

Greening could have been the first stage in the "recoupling" of some direct payments to the public goods supply, which had been uncoupled from agricultural production since the 2003 reform. But in its greening assessment[6], the European Court of Auditors deemed it highly unlikely that greening would lead to any significant improvement in the CAP's environmental and climate results.

In response to the Court's criticism the Commission is now suggesting strengthening environmental and climatic requirements[7] that the Member States will have to include in their strategic plans, by obliging them to devote at least 30% of their rural development budget to environmental and climate protection measures and by setting the share of work in support of the climate at 40% in the CAP. It also has learnt from the shortcomings of greening, notably by imposing crop rotations over all cultivated plots.

However, the environmental and climatic chapter of the future CAP cannot just be reduced to constraints set on farmers, even though these are the focus of financial compensation. Very often it entails a transformation of production systems, which requires costly investments and includes transitory period risks. This is why agroecological transition of a great number of farm holdings will not be possible without support measures, as with the transition over to organic farming. These support measures would fit well with the rural development programmes of the 2nd CAP pillar, to enable farmers to finance investments linked to the transformation of their production systems and

also to rise to the challenge of the transition period. They might take the shape of agroecological transition contracts as part of the Member States' strategic plans.

**5. ENSURING CAP COHERENCE WITH OTHER EUROPEAN POLICIES**

The CAP is well coordinated with the European Regional Development Policy as part of its second pillar, and notably the support given to agriculture in mountainous or disadvantaged areas. The same should also apply to the European Union's support policy for research and innovation, in virtue of the European Innovation Partnership (PEI-AGRI).

The upkeep of European programmes in the CAP in support of the consumption of milk and fruit and vegetables in schools is very important for the introduction of a balanced diet to children, especially the poorest and to counter obesity from a very early age.

However, the European Union's trade policy is not in line with the CAP[8]. Hence, European beef producers, who already face declining consumption in Europe, may be the biggest losers in the ongoing negotiations in preparations for the bilateral agreement with the Mercosur countries (Brazil, Argentina, Uruguay and Paraguay), some of whom, particularly Brazil, do not respect their commitments countering climate change and protecting biodiversity.

Likewise, a renewed cultivation of pulses, which is necessary to reduce the EU's over dependence on vegetal protein imports and to counter climate change, is a collateral victim to the trade war between the USA and China. Indeed in 2018, the American president demanded and obtained from Europe increased imports of American soya, whose volumes more than doubled in the second half of 2018, in compensation for reduced Chinese imports, and in exchange for the suspension of its project to tax German car imports.

In the economic partnership agreements (EPA) with the Sub-Saharan African countries, the European Union must, for its part, ensure that it does not

6. "Greening: a more complex income support scheme, not yet environmentally effective", Special Report no27, European Court of Auditors, 2017

7. See Annex 2

8. See Annex 1

compromise, via its exports, the emergence of African production designed for the local markets, like milk for example

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Just a few months before the European elections the role played by the European Parliament in the development of the CAP should be stressed, particularly in the strengthening of farmers' negotiating powers in the food chain.

As for the application of subsidiarity it must be clarified in negotiations over the CAP for the 2021-2027 programme. Again, the European Parliament could help to make a clear distinction at community level of what can be given to the Member States. The CAP's future development depends on this.

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**ANNEX I****Major countries' agricultural policies**

Whilst the European Union questions the future of its agricultural policy, other major countries, which all have a policy of this nature are tending to strengthen them.

It is the case in the USA, which, since the Great Depression of the 1930's and the Agricultural Adjustment Act, have always had a very pro-active agricultural policy in support of their farmers' revenues via compensatory payments, then guarantees to arm them again agricultural price volatility on the one hand and through the promotion of their agricultural exports on the international markets on the other.

Brazil is also a major agricultural product export country, rivalling the USA in terms of soya and maize exports and supplanting the EU in sales of meat, notably on the markets of Africa and the Middle East. Brazil has a specific ministry to support the exports of its main agri-food businesses that the new government has promised to privilege to the detriment of family farms and the environment (deforestation in the Amazon).

Russia has taken advantage of the embargo introduced since the conflict with Ukraine to become the world's

biggest exporter of wheat. Russia and the other countries on the Black Sea, particularly Ukraine, have become the biggest suppliers of cereals to the countries to the South of the Mediterranean and the Middle East, where they are taking market shares from European countries, particularly France.

The other major agricultural countries, Canada, Australia and New Zealand for its dairy products- have aggressive agricultural policies on the international markets.

The major countries of Asia, importers of agricultural products, support their farmers – in Japan and South Korea at least, and, like China, use rice to guarantee their food sovereignty. The latter, uses its vast market to put its suppliers in competition, particularly in terms of soya, maize and milk products.

Despite its sizeable, still growing population, India manages to ensure its food security. It supports its small farmers; whose electoral influence is significant in this major democracy. Incidentally, it is India which caused the interruption in the WTO's multilateral negotiation round, started in Doha in 2001, by opposing the USA in the upkeep of its basic commodity stocks in the event of poor harvests.

## ANNEX II Agriculture and Climate Change

Climate change will occupy an increasing place in the CAP.

Firstly, because it emits greenhouse gases, i.e. around 10% of European emissions and the rate is higher (nearly 20%) in France, due to the preponderant position of nuclear power use in our country. Agricultural greenhouse gas emissions are mainly due to nitrogen oxide (N<sub>2</sub>O) and methane (CH<sub>4</sub>) which have an extremely high global warming capability, whilst the share of carbon dioxide is much less than in other areas of the economy.

Agricultural emissions have been declining over the last few decades thanks to the improvement in nitrogen fertilisation of crops and should continue to do so if the development of pulse crops like peas, lentils, lucerne and clover, which do not require nitrogen fertilisers, were better supported in Europe in the future.

Agriculture is particularly sensitive to climate change. Warming will certainly enable the cultivation of land further north in our hemisphere, but it will especially penalise the regions in the south, notably those lying on the Mediterranean, which are already experiencing severe droughts. It is causing changes in cultivation cycles, the most spectacular being the grape harvest which has been brought forward by several weeks. The worsening of some extreme phenomenon, such as

floods and droughts, is proving particularly damaging to agriculture. Global warming is generally also the cause of water stress and this has been reflected in the stagnation of wheat yields, notably in France. It is leading to the migration of plant and animal diseases northwards. Agricultural and animal breeding practices must therefore adapt to climate change with the choice of more resistant species, more rigorous management of water resources and the development of agroforestry. Agriculture, with forestry, is one of two economic activities best placed to counter climate change by the absorption of carbon by plants and the soils on the one hand, and by the replacement of fossil resources by renewable resources in the production of energy and materials on the other.

The earth's capacity to absorb carbon is significant. Crop growing practices should lead to the increase in the level of organic matter in the ground and to improve fertility this way: this is the aim of the initiative "4 for 1000" being developed by France at world level.

The production of biogas in methanization units using livestock effluent and household waste will enable the reduction of fossil gas use, whilst agricultural products should occupy an increasingly significant place in the bio-economy.

Although climate change is a problem for agriculture, the latter occupies a crucial place in finding a solution to it.

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