FONDATION ROBERT SCHUMAN

POLICY PAPER

European issues
n°547
18th February 2020

Challenges facing the CAP over the next decade

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The Common Agricultural Policy (CAP) will enter the next decade relieved by Brexit of its fiercest opponent but weakened by the external pressures to which it has been subjected, and disrupted by the enlargement of the European Union.

In the 2020s, it will have to take full account, in conjunction with the European Commission's Green Deal, of the environmental and climate issues that are so important for agriculture.

It will also have to improve the management of climate, health and market risks, which global warming could aggravate, and strengthen the negotiating capacity of producer organisations with their powerful buyers in the food industry and supermarkets.

Budgetary pressure may lead the European Union to distribute direct payments, (which account for three quarters of CAP expenditure), more fairly by placing the burden rather more on large farms, in order to spare the medium-sized family farms, which are still numerous in the western part of the continent.

Finally, the CAP should be coordinated with other European policies, particularly trade policy.

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As the United Kingdom, the European country most hostile to the Common Agricultural Policy (CAP), leaves the European Union, and the Commission and Parliament get down to work, and as the Member States will soon be making decisions regarding the multiannual financial framework for the years 2021 through 2027, it is now time to consider the prospects in store for the CAP over the next decade.

HISTORICAL BACKGROUND AND CURRENT SITUATION: THE CAP WEAKENED BY EXTERNAL PRESSURES AND DISRUPTED BY EU ENLARGEMENT.

Since its inception in the 1960s, the CAP has been under great pressure and has evolved considerably to adapt to the changing context both internally and externally; but these adaptations have often been tardy, and the CAP remains controversial. It is therefore important to recall the main periods of the CAP before trying to assess its prospects for the 2020s.

One of the CAP's initial principles was border protection through customs duties and, above all, variable import levies, which sheltered European farmers from sharp variations in agricultural prices on the international markets thereby enabling a remarkable development in agricultural output in the European Economic Community. However, when the CAP was introduced in the 1960s, "Community preference" was only partial, because during the 1962 GATT trade negotiations ("Dillon Round") and 1967 ("Kennedy Round"), the Americans obtained entry into the European market without levies or customs duties respectively for oilseeds (soybean and soybean meal) and cereal substitutes (maize grains, cassava). Under pressure from the United States and most of the other agricultural exporting countries in the Cairns Group, which were eager to take advantage of the large European market, variable import levies were abolished when the World Trade Organization (WTO) was created in 1994.

It was to prepare for the WTO agricultural agreement that the first major reform of the CAP was decided in 1992: it comprised a sharp drop in agricultural prices compensated by the allocation of fixed direct aid that could not be adjusted according to price variations on world markets, unlike variable American compensatory payments, which are better adapted to an agriculture facing open and unstable markets. In this way, consumer support was replaced by that of taxpayers within the context of a constrained budget.

However, during the first thirty years, two positive measures, initiated by France, strengthened the CAP:

- the adoption in 1975 of specific aid for mountainous and disadvantaged areas, which later became compensatory allowances for natural handicaps, and the first agri-environmental measures;

- the recognition of geographical indications, in particular, protected designations of origin (PDOs) in European regulations in 1992, which are covered by the International Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), despite strong misgivings from third countries and even some northern European Member States.

German reunification in 1991 profoundly changed the way the CAP functioned, increasing Germany's weight and changing its behaviour. Since then, Germany has supported the very large farms in its eastern Länder which were the offspring of the collective farms of the communist period, by rejecting degressive levels of direct aid and capping the amounts of the latter according to farm size and by entrusting support for small farms in the south of the country to the rich Länder of Bavaria and Baden-Württemberg.

The second major CAP reform took place in 2003, once again to facilitate an agreement on agriculture at the WTO within the framework of the so-called "development" round of multilateral trade negotiations that began in November 2001 in Doha and which has still not been completed, while the WTO Dispute Settlement Body continues to be paralysed by the United States. The 2003 reform decoupled direct aid from production and regrouped it into a single payment per farm calculated on the basis of the number of hectares of farmland. Thus, the larger the farm, the more direct aid it receives from the CAP.

No sooner had the 2003 reform been decided than the European Union made its biggest enlargement, welcoming in 2004 and 2007 the countries of Central and Eastern Europe, which still had a large agricultural population. The accession of these countries to the European Union impacted agriculture and the CAP in three main ways:

- It led to exacerbated competition for farmers in the old Member States, particularly France, due both to much lower production costs in these Central and Eastern European countries and an accelerated modernisation of their processing plants, strongly supported by the European Union;

- It reduced the credits granted to farmers in the old Member States within the framework of an almost constant CAP budget; moreover, catch-up has been so rapid that the direct aid per hectare received by farmers in the new Member States, particularly Poland and Hungary, is already equivalent to that received by French farmers, while the differences in terms of GDP per capita remain very large;

- Those of the new Member States that have maintained the very large farms inherited from the communist period have sided with Germany in opposing degressive levels of aid according to farm size and their capping, so that the distribution of aid is extremely unequal across the European Union, with 20% of farms receiving 80% of this aid. The absence of degressive levels of aid and capping has also had a perverse effect on a country like France, where the distribution of direct aid is more even due to the maintenance of medium-sized and mostly family farms, because it encourages the race to expand.

A further step was taken in the 2014-2020 budget programming, with the greening of the CAP and the abolition of milk and sugar quotas.

During this recent period, European agriculture was doubly affected by the conflict between Russia and Ukraine; firstly, by the loss of the Russian market, when Russia implemented an embargo on agricultural and food products from the European Union; and secondly, by competition from Russian agricultural production on the cereal markets of the countries south of the Mediterranean and those of the Middle East, to the detriment of French agriculture in particular.

Finally, we must stress the absurdity of the current situation in Europe with regard to genetically modified organisms (GMOs), whose production is growing considerably throughout the world. Indeed, the European Union continues to import massive quantities of GMO soya and maize from North and South America for use as feed for farm animals (poultry, pigs and cattle), while most Member States are banning their cultivation and banning the use of pesticides (insecticides, fungicides and herbicides), in particular the now famous glyphosate, which these countries (United States, Brazil, Argentina) continue to use unrestrainedly. Moreover, in 2018, when the United States faced a sharp drop in its soybean exports in the context of its trade dispute with China, the American President even demanded and obtained from the European Union that it sharply increases its imports of "American GMO" soybeans in exchange for suspending its plan to tax German cars. In the meantime, Germany has been gradually reducing the use of GMO soybeans in feed for its farm animals.

It is still mainly French agricultural products, particularly wines, that are bearing the brunt of the conflict between Boeing and Airbus.

On the domestic front, mention should be made of the improvements recently made by the "omnibus" regulation, with the support of the European Parliament, in favour of farmers with a view to strengthening their negotiating power in their business relations with large agri-food and retail companies and improving the conditions for the use of risk management instruments.

TAKING ACCOUNT OF THE ENVIRONMENTAL AND CLIMATE CHALLENGES OF AGRICULTURE IN THE CAP AND THE GREEN DEAL.

According to the European Court of Auditors[1], the greening which was the main innovation over the period 2014-2020, did not achieve the results expected and it did not lead to any significant improvement in the environmental or climate impact of the CAP.

Rather than seeking to correct the conditions governing the allocation of the green payment, particularly by ensuring that crop rotations are effective and sufficiently long, and by redeploying part of the direct aid to the support of nitrogen-fixing plant crops and grassland (permanent or temporary), the Commission has preferred to leave it up to each Member State to choose the measures used to achieve the environmental and climate objectives set and to introduce them in its strategic plan for the next financial programming period. The Member States will be required to devote at least 30% of their rural development budget (2nd pillar of the CAP) to environmental and climate protection measures, but this budget is forecast to decrease sharply (-27.6% in constant euro) in the European Commission's proposal, which has set the proportion of the overall CAP budget (1st and 2nd pillars) to be devoted to climate action at 40%.

The European Commission has decided to make the environment and climate a priority of its mandate under the Green Deal for Europe.

If there is one activity which is very much affected by environment and climate change, it is agriculture, whether this concerns the preservation of biodiversity, adaptation to climate change or the fight against it. It is due therefore to occupy a prominent place in the Commission's Green Deal.

Since the most effective way to combat climate change is to set a high carbon price in quota trading

[1]. Special report n°21/2017 by the European Court of Auditors entitled "The Greening : a more complex income support scheme, not yet environmentally effective"

and CO2 taxation, agricultural land and crops that are carbon sources should fully benefit from the increase in the carbon price in the European Union, if this is sufficiently high and coupled with equivalent taxation of agricultural and food imports.

The revival of pulse crops in the European Union and particularly in France, where they had collapsed following the 1962 multilateral trade negotiations (Dillon Round), is one of the key factors in sustainable agriculture and food transition, as highlighted in the WWF 2019 report entitled "*pulse fiction*".[2]

Massive support for leguminous crops is therefore necessary in the future CAP, as these nitrogen-fixing plants have many advantages:

- Edible pulses, such as lentils, peas or beans, are beneficial to health and respond to a shift in food demand towards more plant-based protein;

- by fixing the nitrogen contained in the air, pulses reduce the use of nitrogenous fertilizers and thus the energy needed to produce them; they contribute to the diversification of crop rotations which helps interrupt the life cycle of pests (insects, fungi, weeds) and, consequently, reduce the use of pesticides;

- finally, the development of pulses in Europe would help to reduce the European Union's heavy dependence on soybean and soybean meal imports (70%) for livestock feed.

Grasslands, which play a key role in preserving biodiversity and retaining carbon in the soil, should also be financially supported, instead of the rigid and ineffective obligation of maintaining the surfaces in places that penalises farmers who have made the effort to preserve them on their holdings.

Before imposing new environmental constraints that are more or less justified, or sanctions that are difficult to apply, the CAP must support as many farmers as possible to achieve the agro-ecological transition of their farms. This involves a transformation of production systems that requires costly investments, which should be eligible for credits under the Green Deal investment plan. It also involves risks during the transitional period, to be covered by risk management instruments, especially insurance. Agro-ecological transition contracts could be offered to farmers in Member States' strategic plans.

AGRICULTURAL RISK MANAGEMENT AND THE STRENGTHENING OF FARMERS' NEGOTIATING POWERS.

In the Rome Treaty, market stabilisation was an objective assigned to the CAP. It also remains part of the Lisbon Treaty, but it has been gradually abandoned, due in particular to Europe's increasing openness to imports and the concomitant exposure of European farmers to price volatility on international markets. The European Union's ability to stabilise its agricultural markets has been further weakened by the fact that all production quotas have been abolished and the sectors concerned, milk and sugar, have suffered severe crises following their abolition, while natural disasters (droughts, floods, tornadoes, etc.) are likely to be aggravated by climate change. This will increase the variability of agricultural production.

Although the European Union has a safety net (public intervention and private storage aid) and that it will equip itself with a renewable crisis reserve, it lacks the tools to prevent the crises themselves. The dairy crisis of 2015 and 2016 could have been mitigated if farmers had been encouraged to temporarily reduce their milk production earlier, thus avoiding the accumulation of milk powder stocks which are costly to dispose of later.

If agricultural markets cannot be stabilized, it is the stabilization of farmers' incomes that should be sought through climate, health and market risk management instruments such as insurance and mutual funds. Progress has been made in this area, particularly by lowering the threshold for farmers' income losses from 30 to 20% to trigger the intervention of income stabilisation instruments. The European Union could go further by taking inspiration from Canada's "agri-stability" programme.

[2]. WWWF 2019 Report for France entitled "Pulse fiction: for sustainable agricultural and food transition"

The European Commission has taken steps to strengthen the way agricultural producers are organised so that they can negotiate under better conditions with their powerful buyers in the food industry and supermarkets. The extension of the scheme to all production sectors proposed by the Commission is a step in the right direction, as are the measures recently adopted to better regulate business practices and prohibit certain unfair tactics such as the payment of perishable products beyond 30 days, the unilateral change of contract terms by the buyer or the cancellation of orders at very short notice.

THE CAP BUDGET AND THE DISTRIBUTION OF DIRECT AID.

Since the UK is a net contributor to the EU budget, its departure at the end of 2020 will lead to a reduction in the Union's financial resources in the period 2021-2027. The financial means of the CAP are therefore likely to be reduced due to new priorities and the refusal of several 'net contributor' countries to increase the EU's budget.

While we must wait for the outcome of the current discussions on the budgetary programming for the years 2021 to 2027 to know the funding that will be allocated to the CAP, we must nevertheless prepare for a decrease that is likely to be close to that proposed by the European Commission, i.e. around 5% in current prices corresponding to nearly 15% in constant prices.

As direct payments account for three quarters of CAP expenditure, they are likely to be the focus of cuts in appropriations, which could be made in two ways:

- either by applying a single reduction rate (the so-called planing method) to all but the smallest agricultural holdings;

- either by applying the reduction only to large farms in order to preserve small and medium-sized farms.

While the first option would be the easy way out, it would also be the most unfair and would weaken the medium-sized family farms that still constitute the heart of agriculture in many countries, including France in particular.

The second option would be more justified, as it would take on board the economies of scale enjoyed by large farms, curb the race to expand and mitigate somewhat the very unequal distribution of direct payments. The European Commission's proposal to reduce direct payments as of €60,000 and to cap them at €100,000 per farm is a step in this direction and might even be toughened to avoid penalising small and medium-sized farms, provided that the savings made through gradual reduction and capping are not redistributed within each Member State, as proposed by the European Commission, but are pooled throughout the European Union, since this is the Common Agricultural Policy and not the juxtaposition of 27 national agricultural policies

THE NECESSARY COORDINATION OF THE CAP WITH OTHER EUROPEAN POLICIES, PARTICULARLY THE TRADE POLICY.

While the coordination of the CAP with European regional development policy and with support for research and innovation (IEP-AGRI) is satisfactory, the same cannot be said of the European Union's trade policy.

Two examples illustrate the inconsistency between the CAP and Europe's trade policy.

The first concerns the agreement between the European Commission and the so-called MERCOSUR countries (Brazil, Argentina, Uruguay, Paraguay), which provides greater access to beef imports from these countries, at a time when meat consumption is declining in the European Union and beef cattle have an essential role to play in maintaining grasslands and life in difficult areas such as the Massif Central.

The second relates to protected designations of origin (PDOs), whose recognition in bilateral agreements negotiated with third countries is rightly highlighted by the European Commission, while the latter is proposing to weaken PDOs under the pretext of redefining them, by making the human factors, which are nonetheless

essential, optional. If this proposal were to be adopted, it would weaken many agricultural products covered by PDOs, not only wines, which are the jewels of French agriculture, but also mountain cheese products such as Comté or Beaufort, which ensure the vitality of mountain farming.

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The postponement of the implementation of the new CAP from 2021 to 2022 should therefore be used to give new meaning to this European policy.

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