Independent network
on European Agricultural
and Rural development policies

Will forty hot potatoes turn the CAP reform into a great, big mash?

Has the CAP been re-nationalised? At first glance this seems to be the case. As the precise content of Rural Development programmes have, within a general framework, always been left to the discretion of Member States – they have to co-finance them after all – now also Pillar 1 seems to have become a lot less Common. No less than 40 decisions – and counting – on the implementation of this part of the CAP, that still constitutes three quarters of the total budget, have been left to the Member States or regions within MS. The argument being that it will give MS greater flexibility to address national, regional or local conditions. The political reality of course is that by agreeing to not agree at the European level on these 'hot potatoes' a political agreement under the Irish presidency could be reached. Forty issues left to 28 MS – and for quite a few MS decisions will be further decentralised to the regional level – constitute in theory a mind boggling number of permutations, that will leave the objective of simplifying the CAP a joke. Anyway, a nice challenge for statisticians and good news for researchers. They will have their work cut out for them to take stock of the many ways the new CAP will be implemented and to analyse the effects.
But what will European farmers and citizens gain from this mish mash? Will it lead to a fairer distribution of CAP spending among farmers between and within MS? Will it help farmers to set up and sustain their business? Will it give more value for public money concerning the management of public goods? Will it make agricultural production more sustainable and will it lead to a more balanced territorial development?

On the other hand, it would be all too easy to deem the agreement that was reached on the CAP reform last June as a bloodless compromise; the more or less unavoidable outcome of what without doubt has been the most complex decision making process in the long history of the CAP. Of course, expectations were set high after the publication of Ciolos' draft proposals in October 2011. Civil society, led by the ARC2020 coalition and actively included in the debate by the Commissioner, geared up to demand a CAP that would be in line with the expectations of European citizens – a paradigm shift towards a truly sustainable agriculture and a new 'elan' concerning rural development, felt robbed.
Farmers' organisations and representatives of the agri-business count their blessings, but remain worried because of the budget cuts – still to be confirmed in the finalisation of the MFF negotiations – the uncertainty concerning the final outcome and effects of the many details that still have to be worked out, their possible redistributive effects and the threat of distortion of the internal market.

Now that the dust has cleared up somewhat it's time to take first stock of the good, the bad and the ugly of the deal that was struck between the Commission, the European Parliament and the Council. As with many things in live, depending on one's outlook on the world, one can view the CAP deal from a negative/pessimistic or positive/optimistic perspective.

As the Groupe de Bruges represents both, we will try to give a balanced first analysis of the CAP agreement. We will use as reference the position paper we issued in January last year, which was a reaction to the original proposals of the Commission.

So, let's start with the bad news first and get this out of the way.
One of our main points of criticism was and is the fact that the Direct Payments System (or SAPS in the new MS) - now renamed the basic payment scheme - remains at the core of the CAP. Originally these payments were intended by Commissioner Fischler as a *temporary* measure, to provide a soft landing for farmers to compensate for loss of income that would result from the fact that agriculture had to become more market orientated to be able to fulfil Europe's WTO obligations.

By extending the Direct Payment System into the new period, we fear that it's here to stay. Apparently, the European agricultural sector - after experiencing years of high price volatility – is not quite ready to deal with the full force of the market after all. In maintaining the Direct Payment System, the political leaders are implicitly admitting that the policy to make agriculture more market oriented has not been very successful so far.
Although a not unsubstantial part of the support, with the greening and a number of top up measures (e.g. young farmers, small farmers, ANC's) that were formerly part of Pillar 2, will become more targeted, the bulk of the money is still going to farmers for just being farmers (if indeed they are real and active farmers) without any social or economic justifications and no other environmental obligation than to follow existing regulations.
And it's still not an income support, because there never was nor will there be a direct relationship to the actual income of the farmers in question. This remains one of the biggest anomalies of the CAP.

We have mixed feelings towards the fact that the direct payments will now be connected to the land. It will in general favour large, extensive farmers, reducing the positive impact these payments could have on employment and competitiveness. It's even questionable in the current setting if paying for the hectares will have positive environmental effects. In the light of the favourable outlook for most agricultural commodities large, extensive farmers could even decide to forgo on the greening part of their direct payments if this gives them greater flexibility to respond to more profitable market developments.

Other bad news, at least in our opinion, is the fact that the budget ratio between first and second pillar has remained unchanged at 3:1. Clearly with the 2nd Pillar being really targeted, tailored and contractualised for a longer period of time (Pillar 1 obligations are typically for a one year period) it would make good sense to give Pillar 2 more budgetary emphasis, as this money is much more easily justified to the public[1]. In the light of the growing anti-European sentiments this seems not only a missed opportunity, but also a decision that seems further proof that the negotiations have taken place without much consideration for the current societal context.

Yes, MS have the opportunity to shift 15% of the national envelope of Pillar 1 to Pillar 2, even without the obligation of co-financing, but also vice versa. Given the general budgetary problems most European countries face, they can be easily tempted to choose the option that will cost them the least money.

The last bit of bad news we want to stress – there are many more points, but they will take up too much room for now – is the fact that the CAP deal seems to be virtually devoid of attention to the international context. Apart from the decision to reduce the export subsidies to zero – for now – all market measures are exclusively aimed at reducing internal market disturbances.

[1] A simple example is the fact that Pillar 1 subsidies are completely invisible to the general public, while Pillar 2 subsidies are being made known under the obligation to use the European logo.

With the WTO negotiations in coma for years it's easy to forget the world 'out there', but the reality was and is that the EU still is the biggest importer and exporter of agricultural commodities. Coming with this position is the responsibility for not only improving the sustainability of agricultural production within the EU, but also in the countries we import agricultural commodities from[2]. Finally, the outcomes of the [trade negotiations (TTIP)]() that have recently started between Europe and the USA can easily turn the CAP deal on its head[3].

Luckily there is also some good news. On some crucial issues we can witness a clear rupture with the past and some interesting policy innovations. The greening of the 1st Pillar – whatever criticism anyone, including us, might have on the proposed measures - is now an undisputed fact. With this, the main rationale behind it, as originally intended by the Commission, has remained intact: small steps for all farmers – a substantial part anyway – under Pillar 1 while Pillar 2 still offers ample opportunities for the frontrunners. The fact that double funding of greening measures will – thank God! – not be allowed, means that the agri-environmental measures really have to go a step beyond the Pillar 1 obligations.
We have to closely watch the way the frontrunners – either individually or through territorial collectives - will implement these Second Pillar measures as they could and should act as a stepping stone to become the standard for all farmers in the future. Because there is no doubt that in the CAP post 2020 (or even sooner) the greening part of the first Pillar of the CAP will have to substantially increase to justify this public spending.

We welcome the compulsory top up for young farmers in the First Pillar and the support for young farmers in the Second. A hard fought success for CEJA. These measures are not only important for the necessary rejuvenation of farming all over Europe, but could also contribute to the larger European objective to address current unemployment and to keep people in rural areas.

Concerning the Second Pillar in general, we can largely maintain our initial positive outlook: the proposals of the Commission have remained intact to a large extent. The biggest with the first Pillar is that it will offer a good basis for a more targeted, tailored and – multi-annual - contractualised implementation.

There is also a shift in focus away from the individual farmer towards farmers (and other stakeholders) working together. Support for these collaborative approaches must be regarded as an important policy innovation that offers a better basis to reach the objectives of smart, green and inclusive growth.

We also applaud the efforts that are being made to come to a better integration with other policy domains such as the Common Strategic Framework for the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund, although it remains to be seen if and how the MS will cope with this new phenomenon as it will imply large efforts to break through existing walls between these policy domains.
Part of this CSF is the Community Led Local Development, based on the LEADER approach that in 20 years of its existence has shown its added value and which could offer more room for bottom up solutions and innovations and for rural-urban cooperation, although a minimum of 5% of the budget for LEADER to implement this policy innovation seems ill served.

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[2] For example: the EU has recently banned battery cages for chickens. The RTA's with for example India and Latin America (Mercosur) could allow the import of eggs from chickens held in cages.
[3] The same could apply to the RTA's with India and Mercosur.

This can fortunately not be said for the measures relating to innovation and research: the budget of € 5 billion as proposed by the Commission has been doubled giving a real incentive to come to a multi stakeholder approach under the CSF for Research and Innovation. We have especially high hopes that the European Innovation Partnership for Agricultural Productivity and Sustainability will succeed in closing the existing gap between research (programmes) and practice.
Although we consider these to be important and relevant policy innovations - at least in theory - we wonder why a similar integration approach has not been attempted for other domains, such as combatting climate change, improving bio diversity and sustainable food consumption.

Despite this good news our overall feeling is one of scepticism. With so many options left to the Member States, national and regional governments could easily be tempted to take 'the wrong turn' in implementing the CAP and choose the options that will cost them the least and serve them politically the best in the short run without much consideration for the necessary steps to be made for the long run.
Furthermore, the greening of the First Pillar, although now an integral part of the payment system, has been diluted and exempting large categories of farmers to the point that it will be hard to convince the taxpayers that real progress will be made to make agriculture more beneficial for the environment.
In this light it seems highly unlikely that this CAP deal will remain unchanged until 2020. Although a mid-term review has not been included in the CAP deal, with the upcoming European elections in 2014 and review of the Multi Financial Framework, scheduled for the end of 2016, it's very probable that also the CAP will be re-evaluated and adjusted mid-way. We would welcome this as an opportunity to recalibrate the CAP, especially concerning further greening and improving the ratio of the budget for Pillar 1 and 2 in favour of the latter.

The Member States have to really step up now and take their increased room for manoeuvre as an opportunity to show the European taxpayers that they are serious in using this public money towards truly sustainable food production and responsible management of natural resources. If not than there is a real political danger that in the framework of the MFF review scheduled at the end of 2016 the apparent lack of justification may lead to new and even bigger budget cuts.