# "CAP 2020 and MFF-which Model for Agriculture?

# AgriAnalyse Conference 5/2/2013-OSLO

Lars Hoelgaard, Special Adviser

# CAP-Headlines

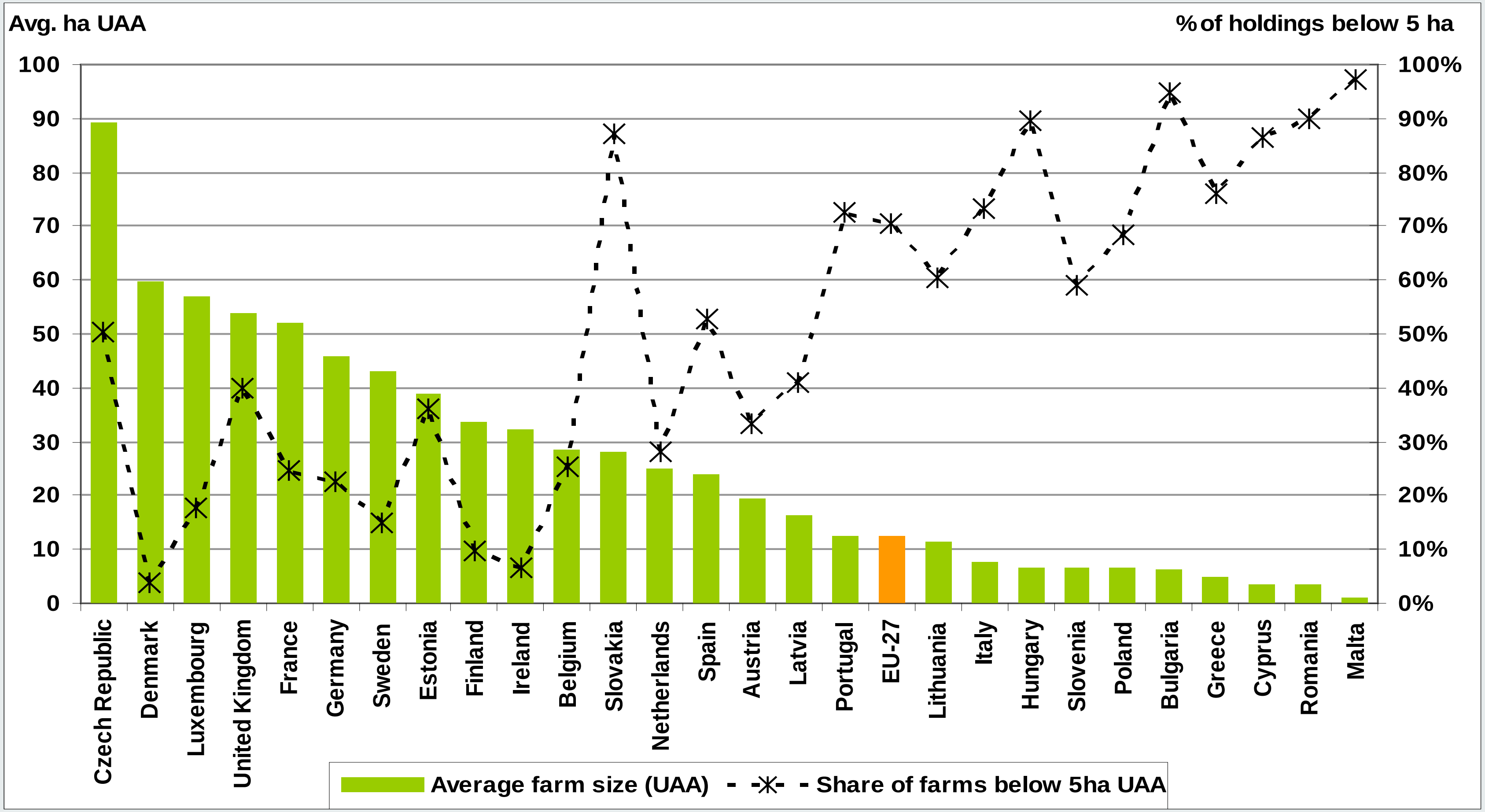
- Some Facts
- Reform Proces
- CAP 2020 Proposals
- Multiannual Financial Framwork-MFF
- State of Play-EP Co-Decision
- CAP at Crossroads
- An alternative View of a future CAP

# CAP-Headlines

- Some Facts

# Farm Structures across the EU

*Figure 24: Average farm size and farms below 5 ha UAA*

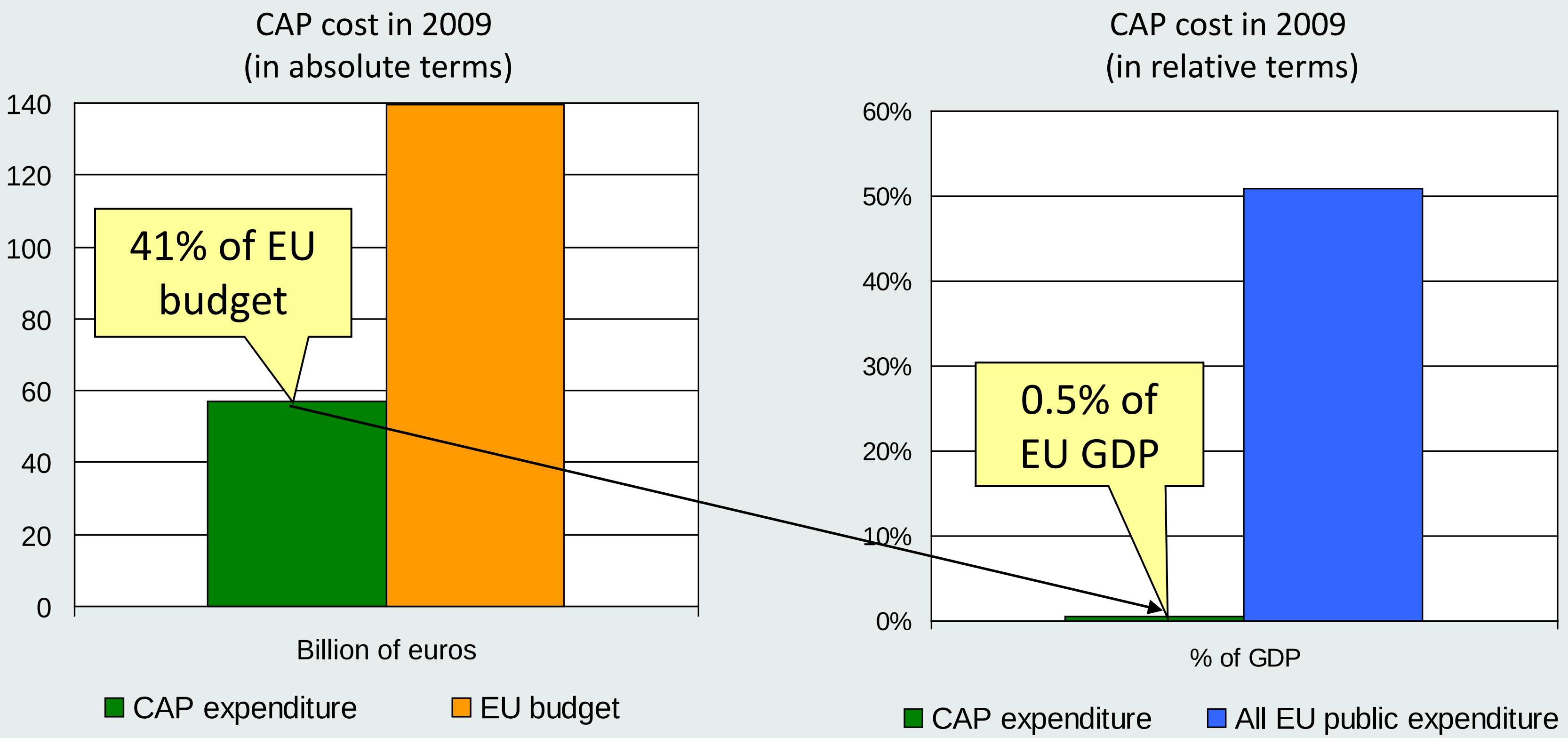



Source: Eurostat Farm Structure Survey 2007

# Number of Milk Producers EU 10 since 1984

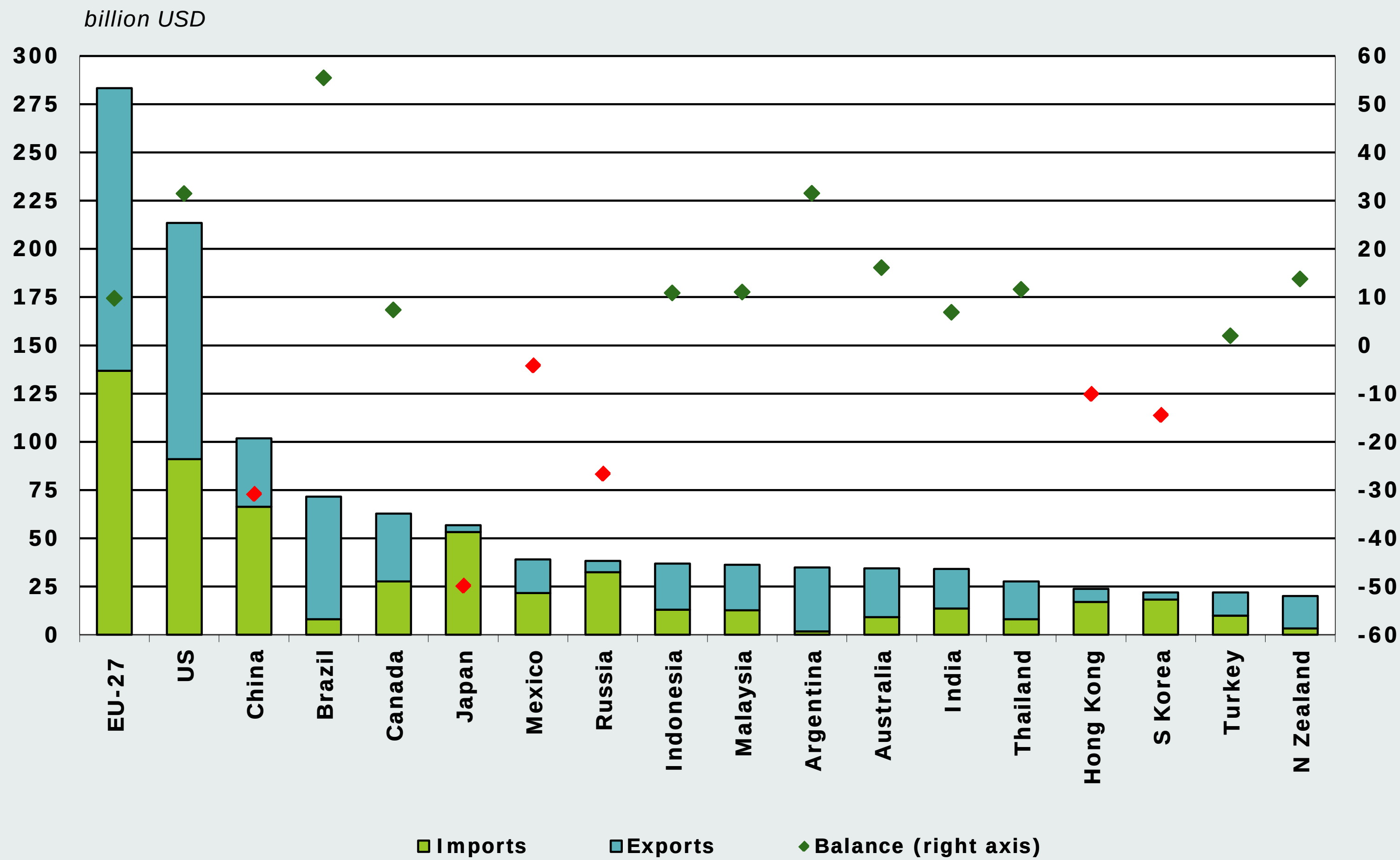
- 1984 : 1.200.000
- 2010 :    220.000 or
- 5 milk producers out of 6 have left since quotas were introduced with 18 % remaining
- Conclusion : quotas have not kept small milk producers alive

# Alternative views on the cost of the CAP



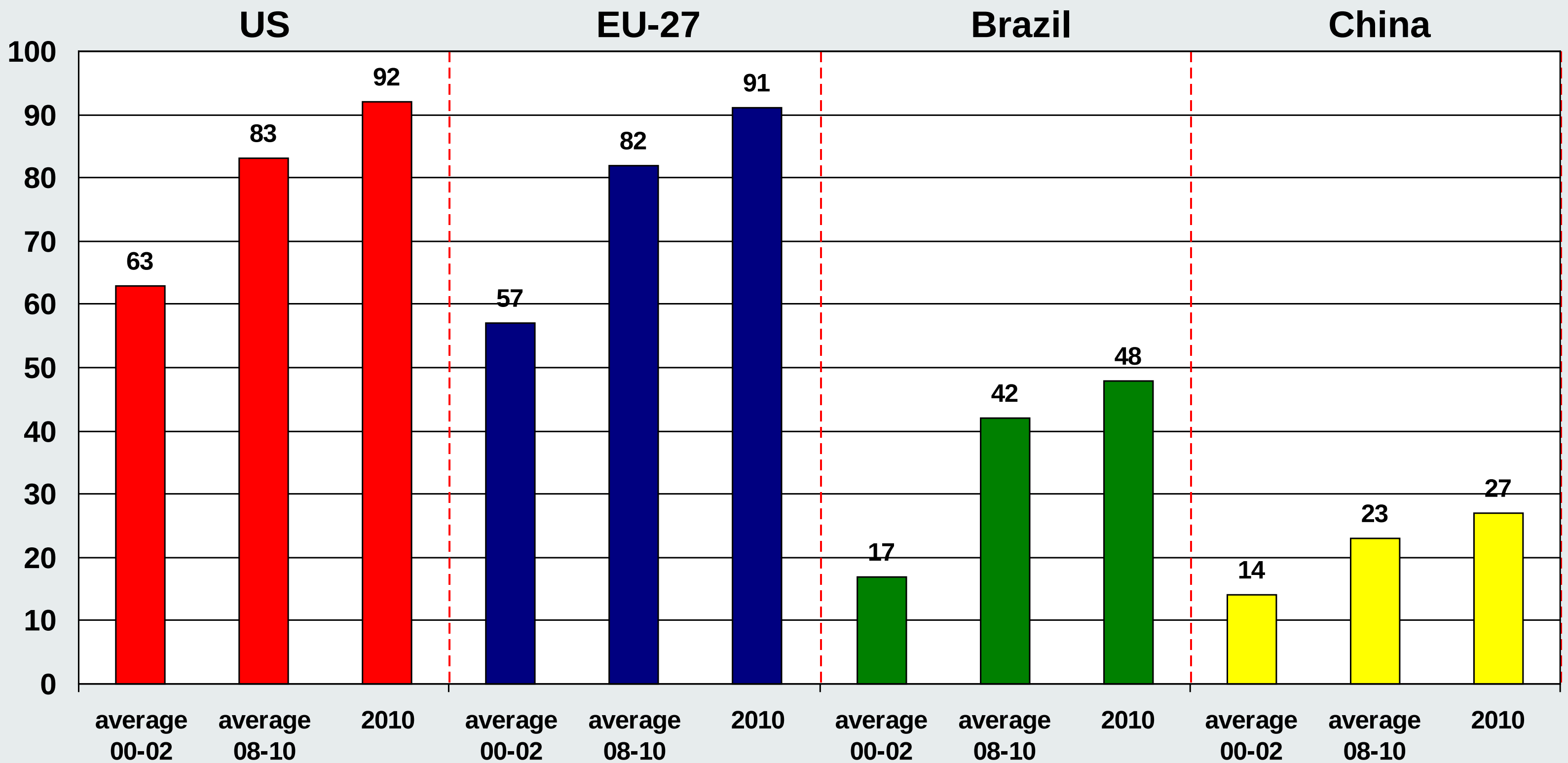

*Source: European Commission - DG Agriculture and Rural Development*

# World top traders in agro-food products - 2011



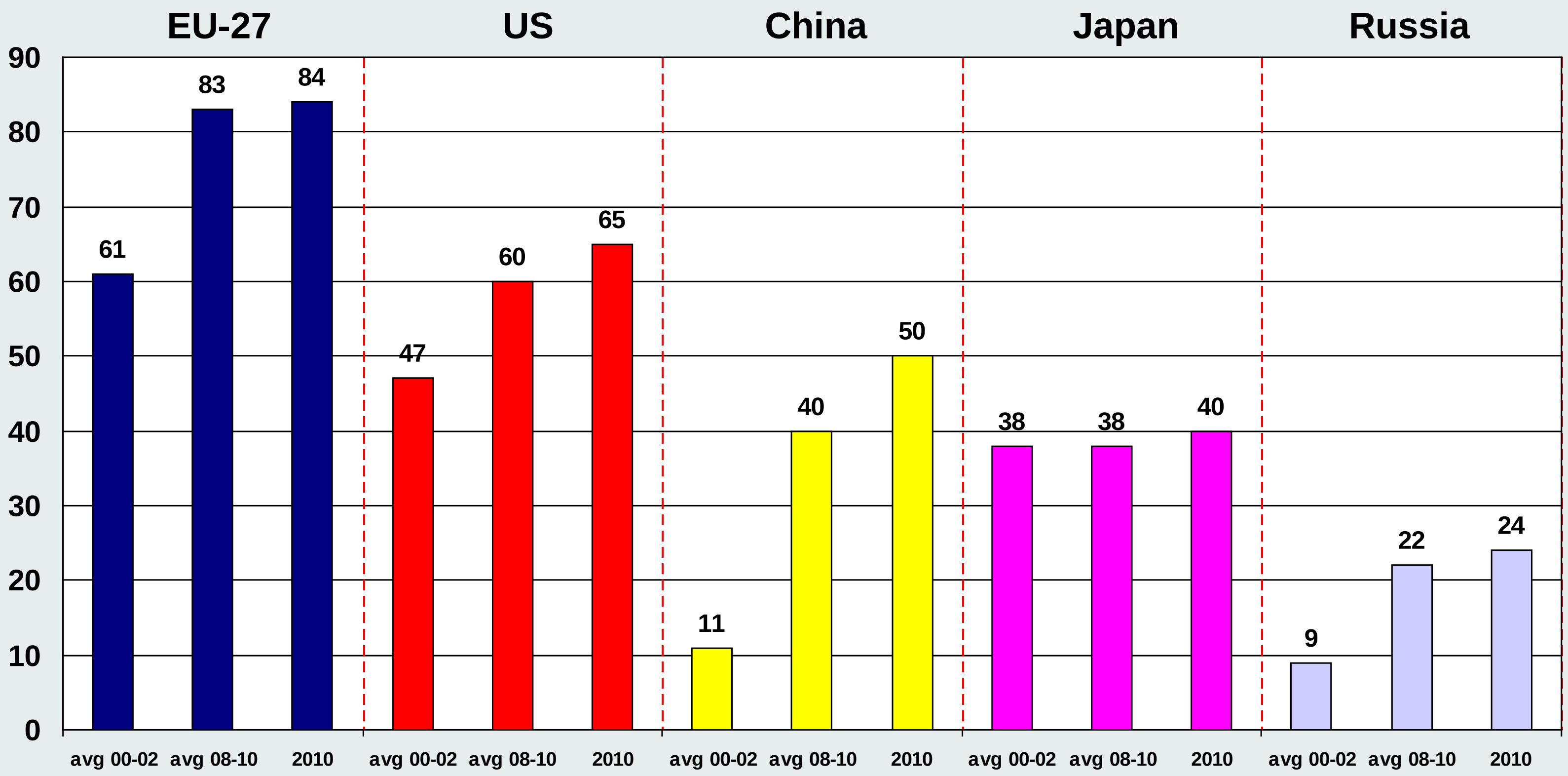

*Source: EU-27 COMEXT, all others COMTRADE.*

# World top exporters (billion EUR)



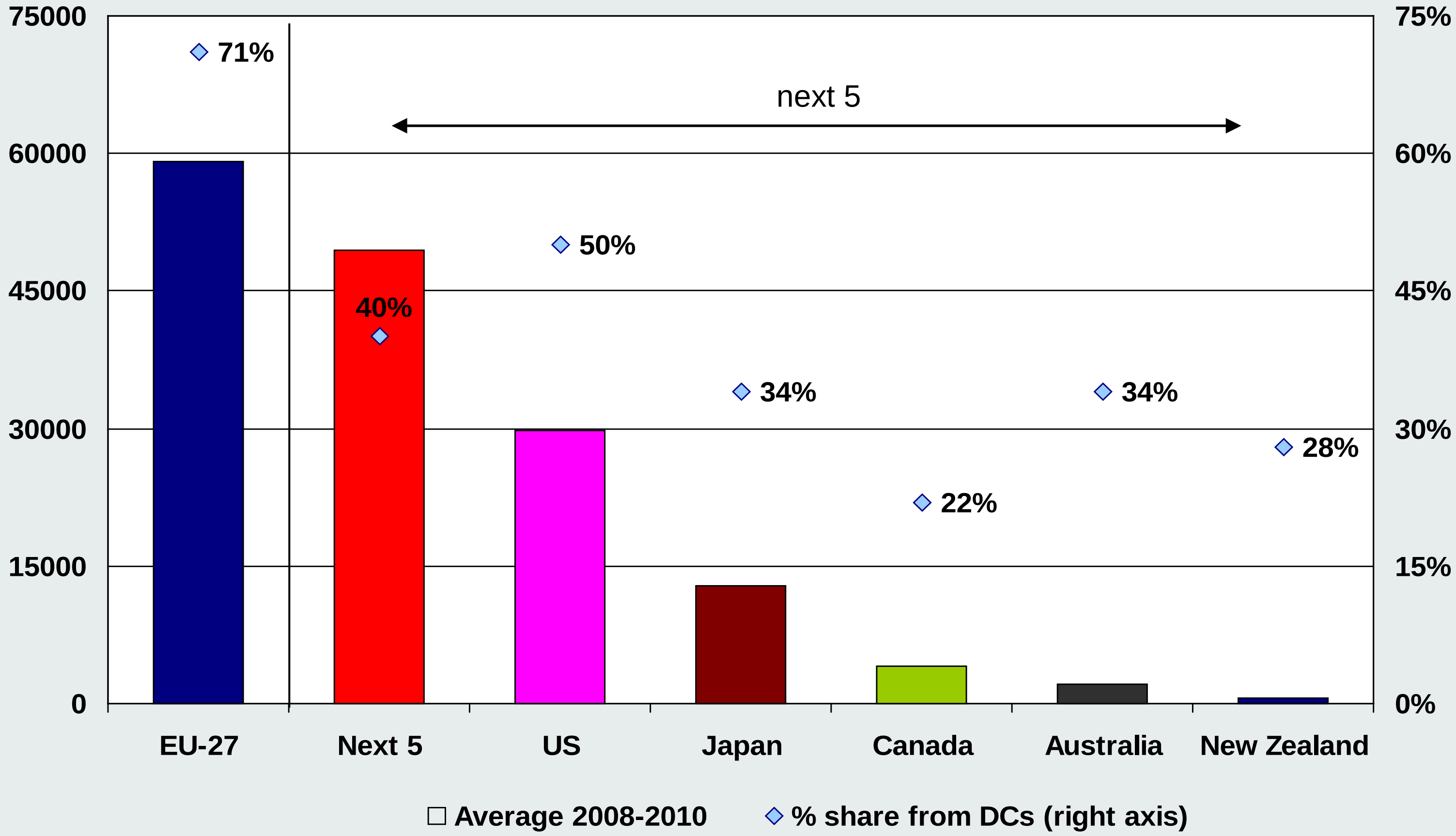

*Sources: COMEXT & GTA*

# World top importers (billion EUR)




*Sources: COMEXT & GTA*

# World imports from developing countries (mio EUR)




*Sources: GTA & EUROSTAT - COMEXT*

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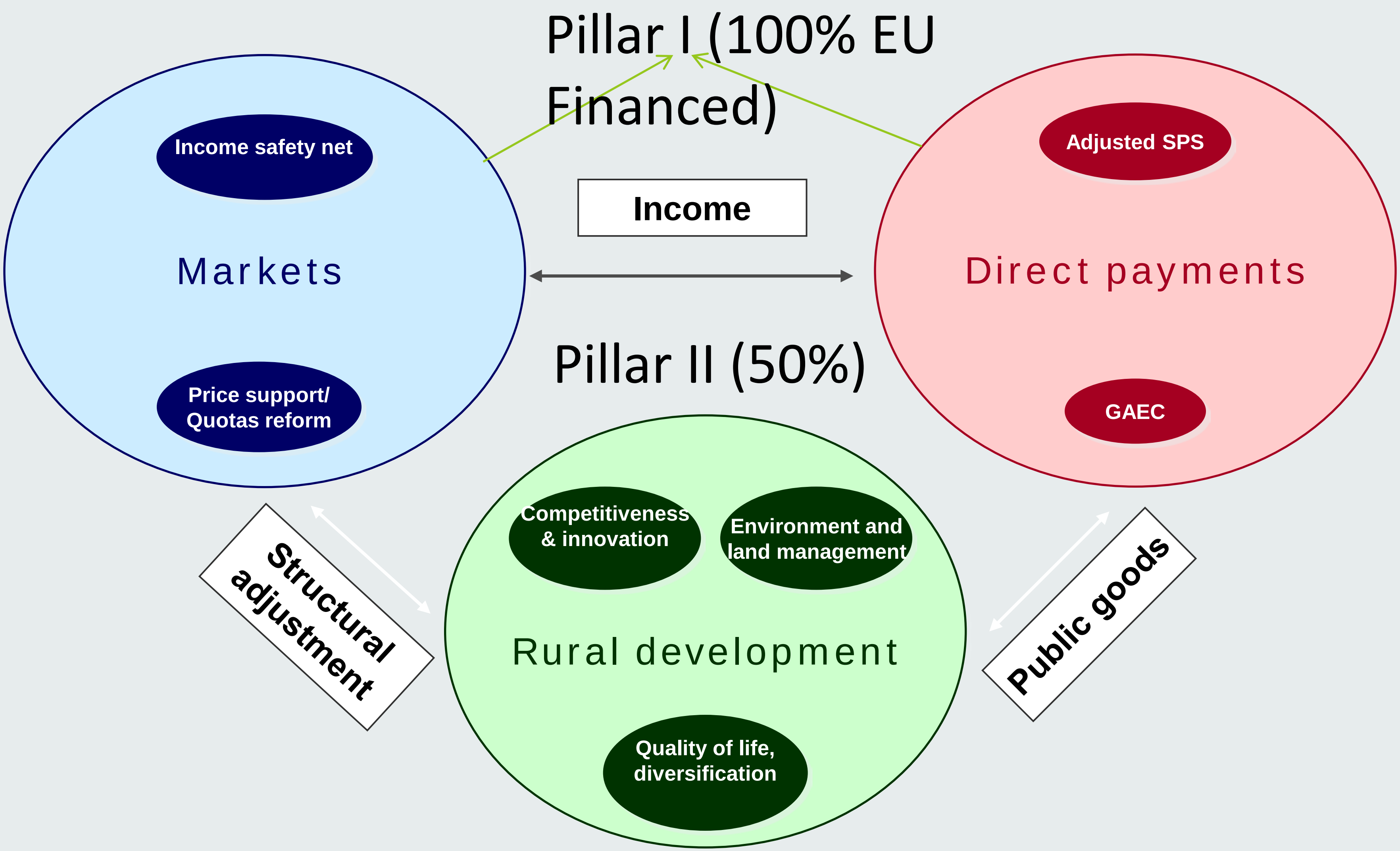
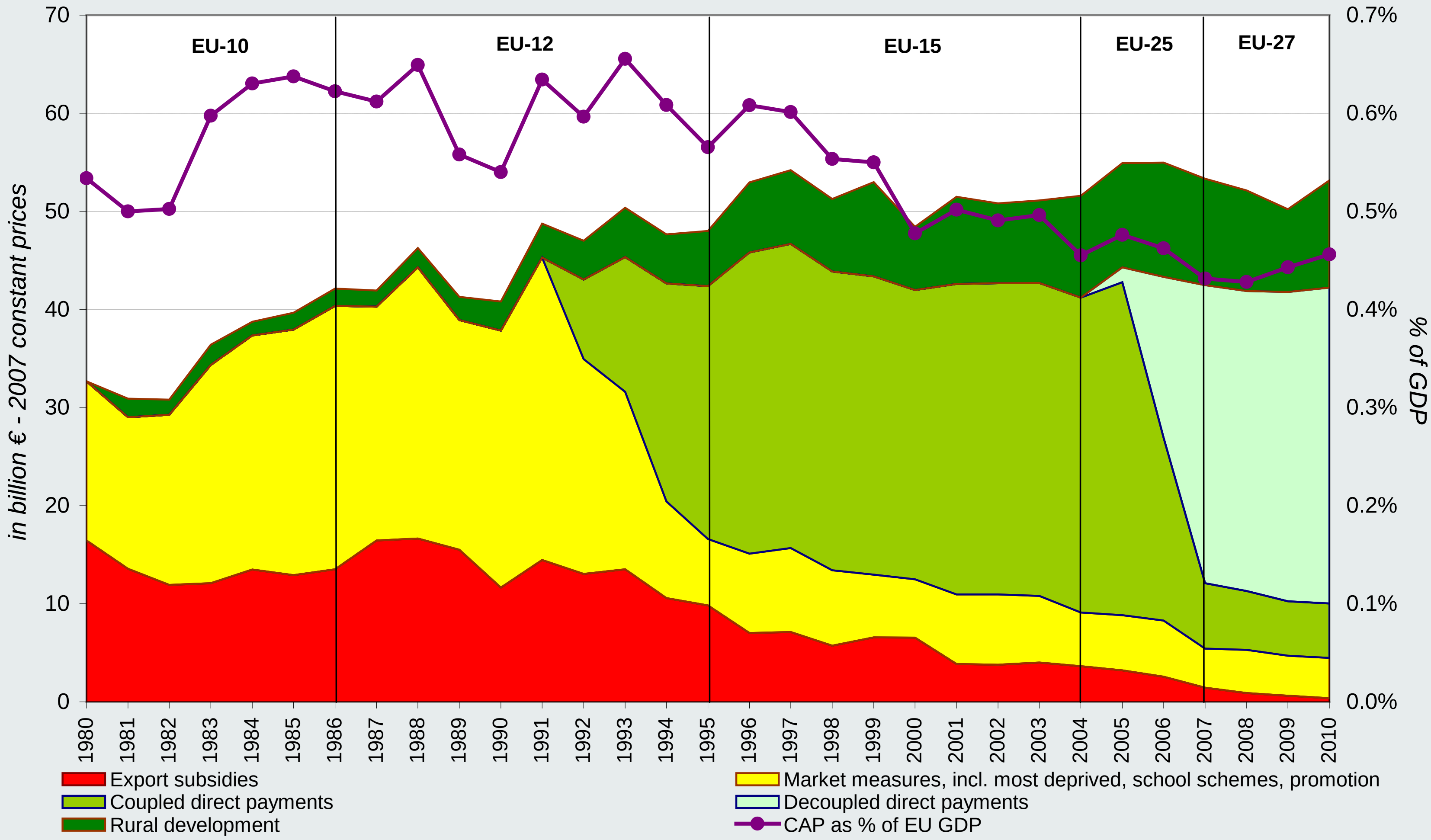
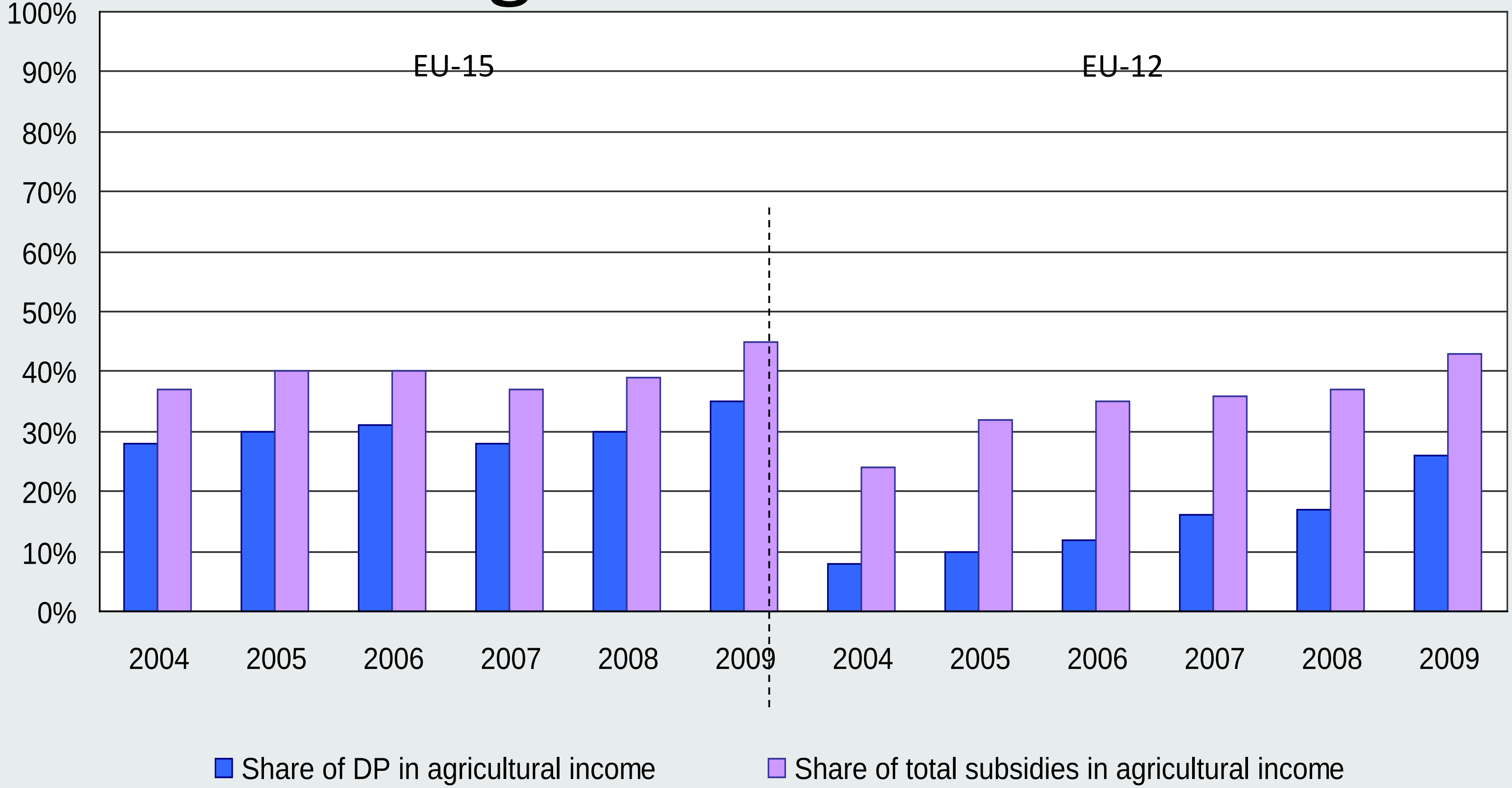
# CAP instruments



# CAP reform process and evolution of agricultural expenditure

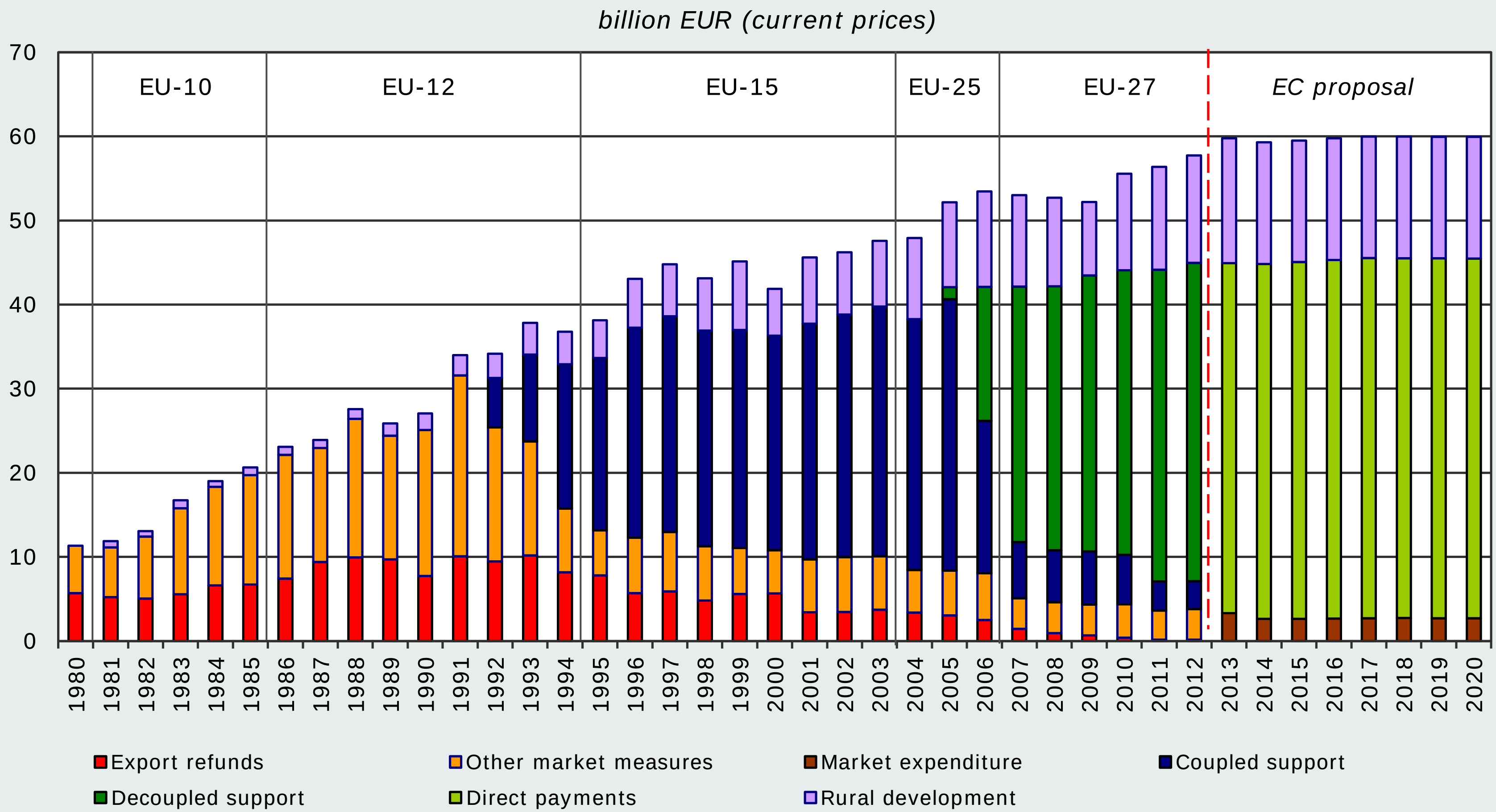


# Share of DP and total subsidies in agricultural income




*Source: European Commission - DG Agriculture and Rural Development*

# The path of CAP expenditure 1980-2020




*Source: DG Agriculture and Rural Development.*

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# CAP Pillar I: better distribution –"Convergence"/ targeting of Direct Payments (DP's)

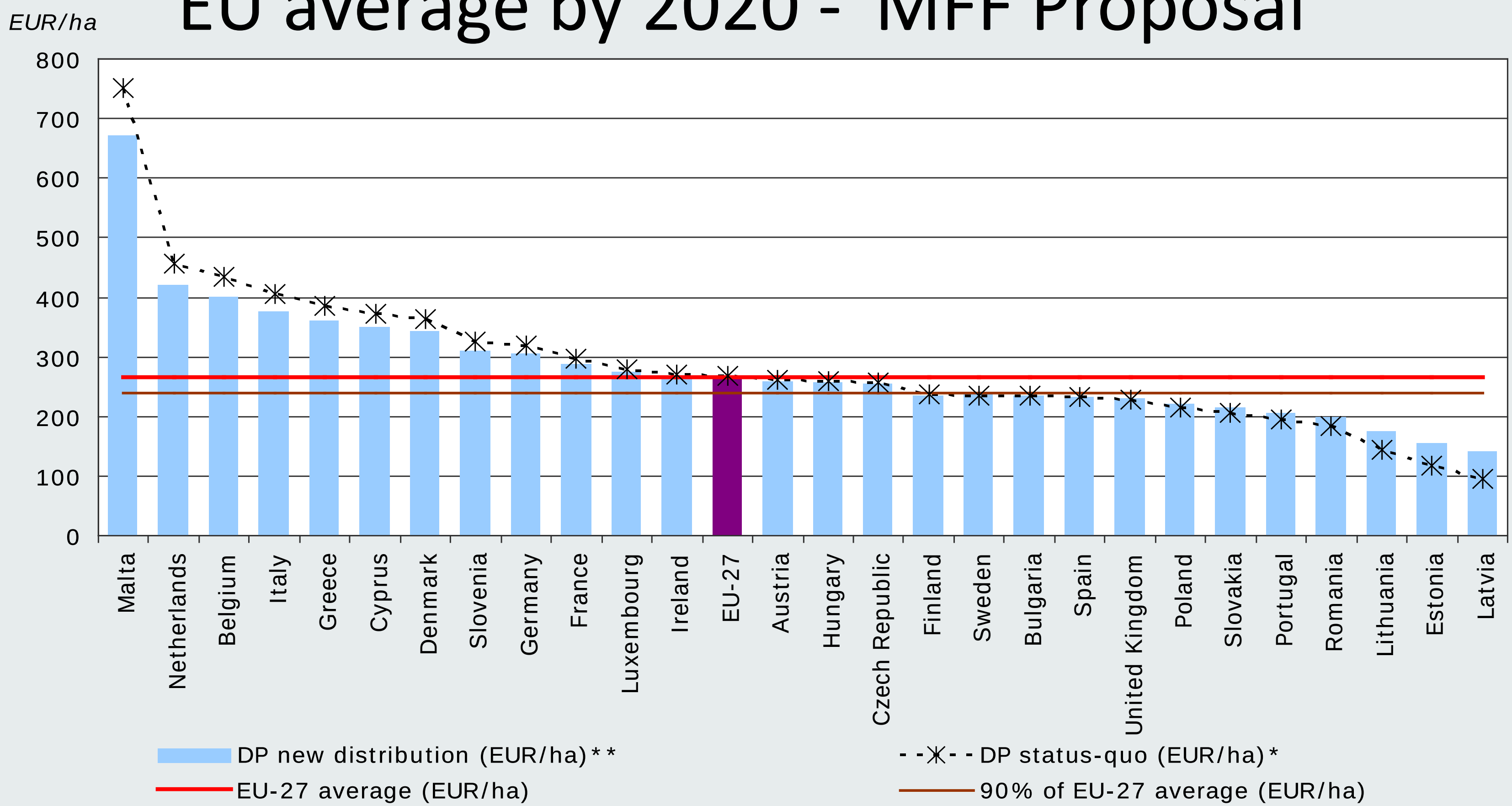
- **Fairer** distribution of DP
  - Between MS (reducing differences)
  - Within MS (national/regional flat rate) or

Why you more than me?–just because of history-maybe we are even to-day producing the same !

- Adjustments to **better target** the support according to the new objectives:
  - Payment in areas facing natural constraints (ANC's)
  - Small Farmers
  - Payment to young farmers
  - "Greening"

Source DG AGRI

# Redistribution of DP's- "Convergence"-Closing one third of the gap between current level and 90% of EU average by 2020 -"MFF Proposal"




*Source: DG Agriculture and Rural Development.*

* Calculated on the basis of all direct aids on the basis of Council Regulation (EC) No 73/2009, after modulation and phasing-in, except POSEI/SAI and cotton and potentially eligible area 2009.
** Calculated on the basis of Annex II to DP proposal for claim year 2019 (budget year 2020) and potentially eligible area (PEA) 2009.

# The policy link: Why "green the CAP" (Legitimacy?)

Economic challenges

- Price level
- Price volatility
- Terms of trade of agriculture
- Productivity slow down

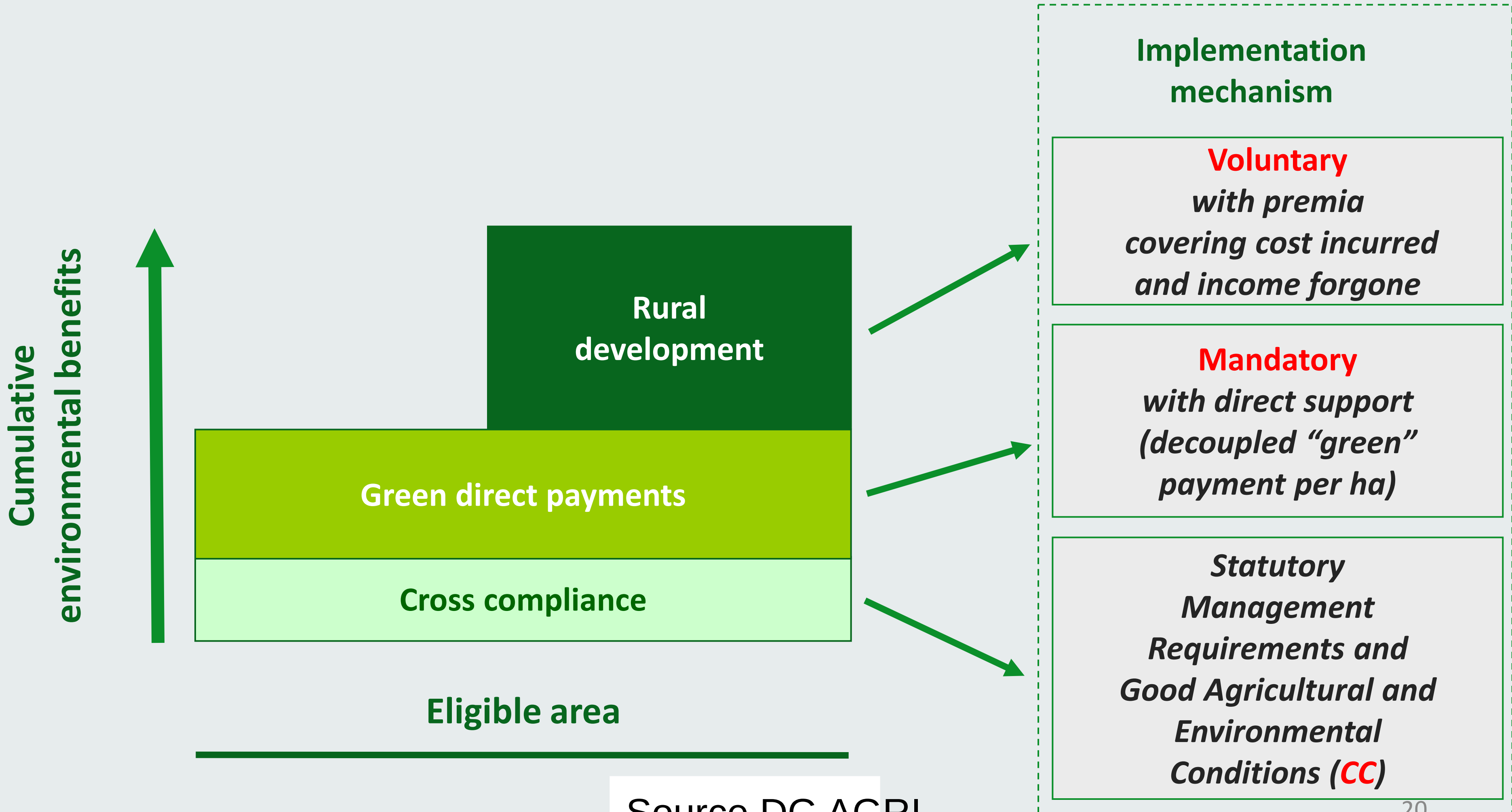
Environmental challenges

- GHG emissions
- Soil depletion
- Water/air quality
- Habitats and biodiversity

Policy objective

Sustainable management of natural resources and climate action

# The New Greening Architecture of the CAP-Pillar I and II




Source DG AGRI

# Pillar II-New Design of RD policy: clear & appropriate priorities

- 1. Fostering knowledge transfer and innovation in agriculture, forestry and rural areas
- 2. Enhancing competitiveness of all types of agriculture and enhancing farm viability
- 3. Promoting food chain organisation and risk management in agriculture
- 4. Restoring, preserving and enhancing ecosystems dependent on agriculture and forestry
- 5. Promoting resource-efficiency and supporting the shift towards a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors
- 6. Promoting social inclusion, poverty reduction and economic development in rural areas

Source DG AGRI

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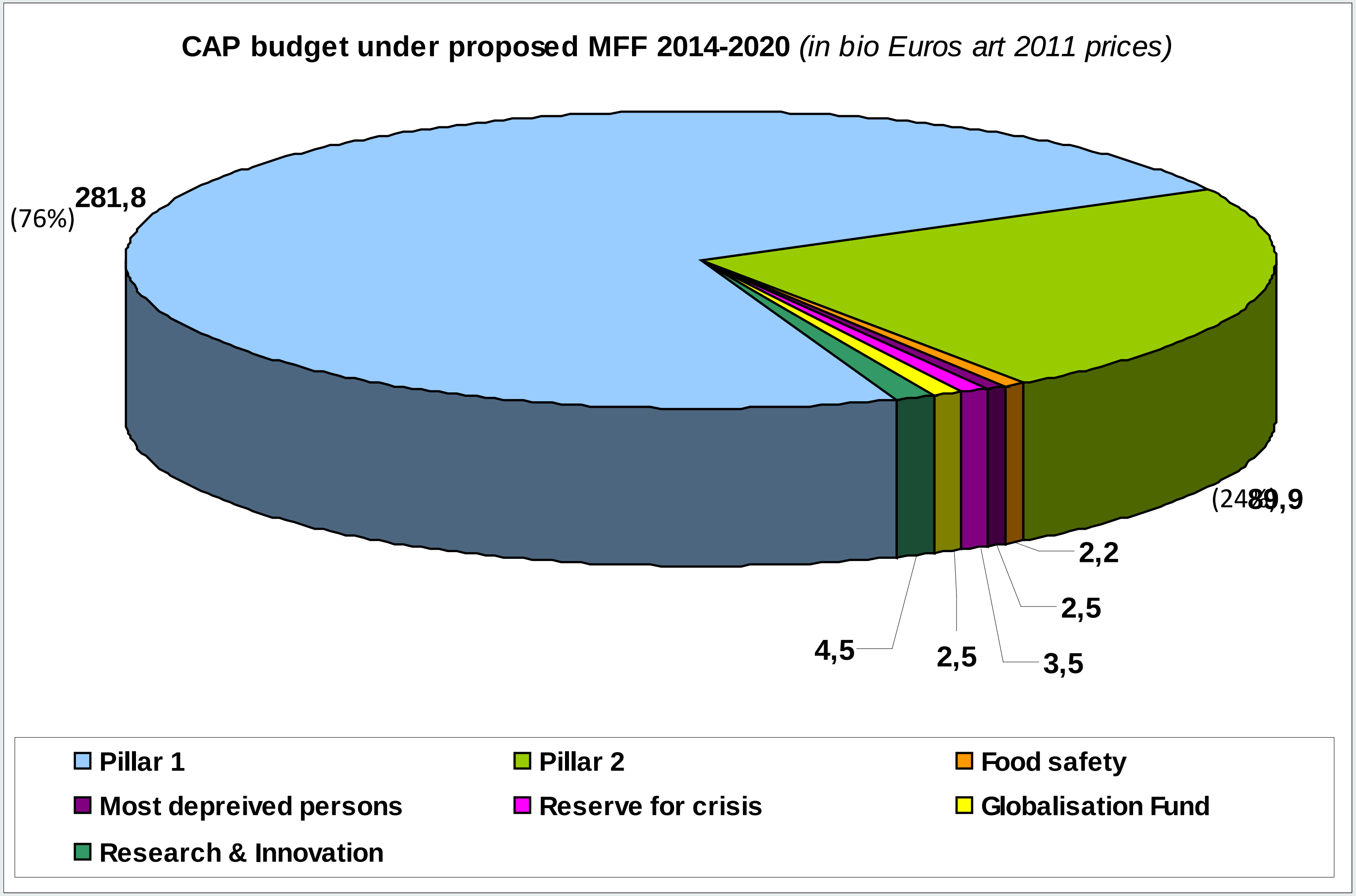
# How will the CAP be financed?

- Commission proposals on Multi-Annual Financial Framework for 2014-2020 to maintain CAP spending at 2013 levels in nominal terms

| *in billion EUR* | *current prices* |
|---|---|
| - Pillar I - Direct payments and market-related expenditure | 317.2 |
| - Pillar II - Rural development | 101.2 |
| **Total Pillar I and II** | **418.4** |
| - Food safety | 2.5 |
| - Most deprived persons | 2.8 |
| - Reserve for crises in the agricultural sector | 3.9 |
| - European Globalisation Fund | Up to 2.8 |
| - Research and innovation on food security, the bio-economy and sustainable agriculture | 5.1 |
| **Total additional amounts** | **Up to 17.1** |
| **Total proposed amounts for the period 2014-2020** | **Up to 435.5** |

*Source: Commission Communication 'A budget for Europe 2020' – COM(2011) 500 final, part II.*

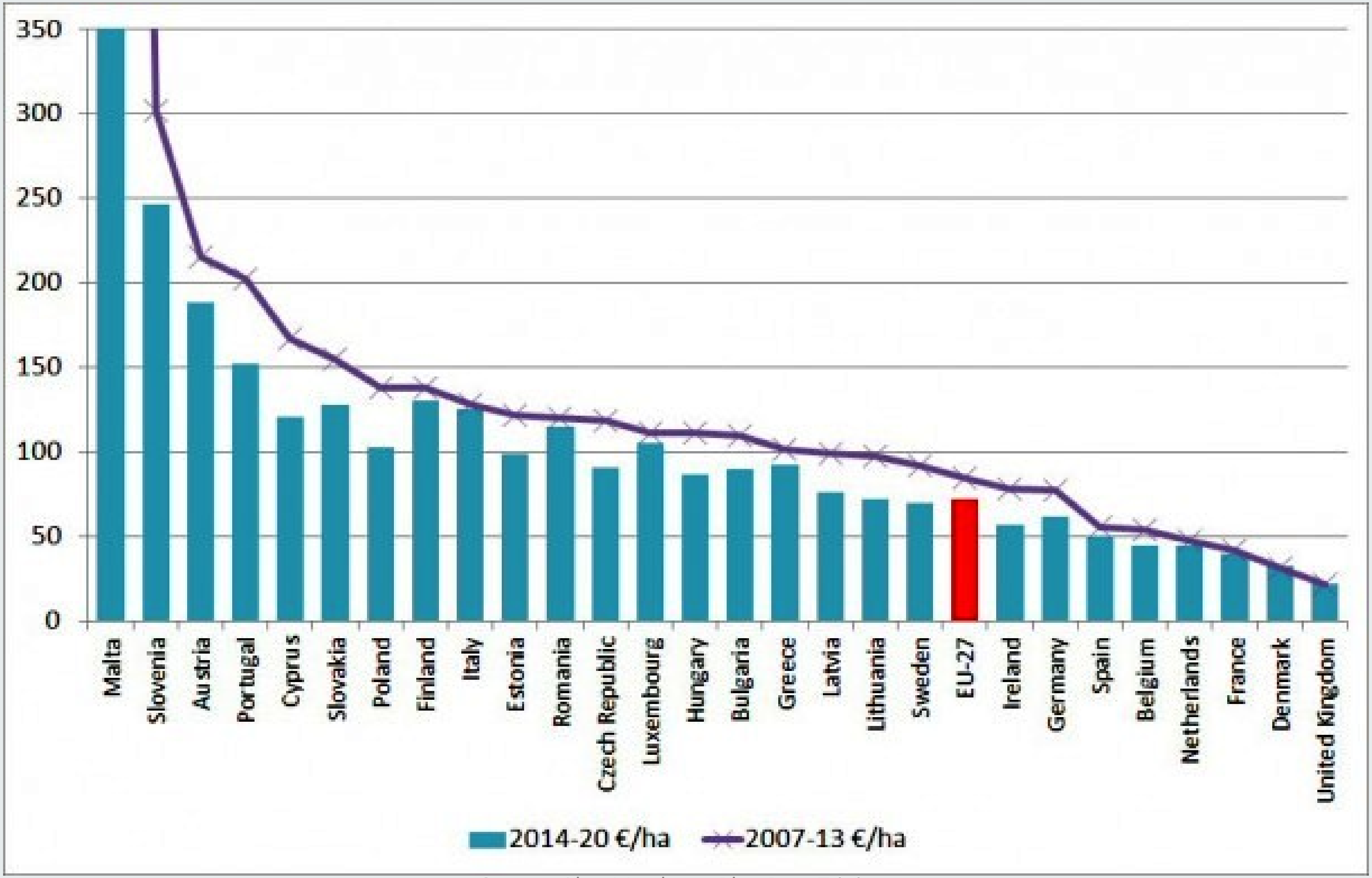
# Financial perspectives 2020
# 29 June 2011 proposal



# MFF, CAP and Van Rompuy (HvR)-7-8/2 -Mill €

| MFF (EU28) 2011 Prices Commitments Extracts | Commission July 2012 | HvR I | HvR II | HvR II vs HVR I |
|---|---|---|---|---|
| Heading 2 « Sustainable growth:Natural resources | 386 | 364 | 372 | +8 |
| of which Market expenditure and Direct Payments Pillar I | 283 | 270 | 278 | +8 |
| Of which Pillar II | 92 | 84 | 84 | 0 |
| Total MFF inside | 1.048 | 973 | 972 | -1,3 |
| Outside MFF: Globalisation Fund +Agricultural Crisis reserve | 6,5 | No AG Crisis 3 | No AG Crisis 3 | 0 |

# Pillar II-HvR Budget distribution-MS




Source: Alan Matthews Blog Post-Trinity College

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# Greening of the CAP-30 % (?) of DP'S -State of Play

| Item | Commission | Council | Comagri-EP |
|---|---|---|---|
| Permanent Pasture (PP) | Farm level-5 Year Def.-5% flexibilty - 2014 base year | Derogation: Reg/Nat level <3 %,>3<5%,>5% | 7 Year Def. –Reg/Nat level. 7% flexibility |
| Ecological Focus Areas (EFA's) | 7 % (buffer strips, landcape features, terraces…) | Only >15 ha, if 75% PP no EFA- 3,5/3,5% split farm level/ group of F. | >10 ha-3% 2014-15 5% as of 2016, 7 % Com Report ?- Nitrogen Fix Area |
| Crop Diversification (Rotation ?) | > 3 ha -3 Crops - Max 70 %/Min 5 % | > 15 ha-exception > 75 % PP or 100 % Protein crops | >10 h<30 h, 2 Crops and Max 80%,>30 ha Max 75 %, |
| Green by definition-Equivalence | Organic farmers, | + Agrienvironment Pillar II and Nat. Certification | Derogation >75 PP and < 50Ha. Greening voluntary |
| Budget transfers between Pillars | 10 % to Pillar II<br>5 % to Pillar I | Some : Increased Flexibility for transfer | 15 % to Pillar II<br>10 % to Pillar I |

# Pillar I-Market Measures-State of Play

| Item | Commission | Council | Comagri-EP |
|---|---|---|---|
| Sugar Quotas | End 2015 | Majority: prolong 2020 | Prolong 2020-final |
| Milk | Quotas end 2015-Milk Package 2011-(PO's negotiate price. GI's volume control) | Majority: Quotas end 2015-Minority extend<br>Milk Package + | Milk Package + and forced reduction of production in case of surplus+automatic intervention |
| Wine | End of Planting Rights-EU 2015, National 2018 | Wine Group-GI's retain Planting Rights National Decision | Extend Planting Rights till 2030 |
| Coupling | Max 5 % all products-(ex 10%) | Several much higher | 10-15 % |
| Reference prices | No adjustment | Many MS: upward Adjustment-cost of product.-Others NO | Upward adjustment to compensate for increase in cost of prod |

# State of Play-Time table CAP – reform and EU budget-MFF

- Co-decision EP since Lisbon Treaty-Trilogue: COUNCIL/EP/COM
- COMAGRI voted on Amendments/compromise Text 23-24/1
- Budget – Financial Perspectives - MFF-Summit 7-8/2/2013 ?
- EP to give "Consent" (2/3 majority) to MFF as established by European Council-March 2013 ?
- Council Common Position 18-19 March 2013 ? (Negotiat. Mandate)
- EP Plenary 11-14 March 2013 to give Negotiating Mandate -Confirm position of COMAGRI ?
- Initiation of informal Trilogue-Council EP and EU Commission- already now or only once MFF and Common Position established?
- Irish Presidency – 1/1/2013
- Political Agreement by 30/6/2013 ? Very Tight !
- Lithuania – 1/7/2013

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# *Societal Challenges*

- **Prospect:**
  - Increasing food demand (FAO: plus 70% by 2050)
  - Higher cost of production and price volatility
  - Slow-down of growth technological development
  - Increasing land use competition (bio-mass, bio-energy, nature conservation) and pressures on resources and environment
  - Climate Change
- **Response:**
  - Increasing agricultural production and productivity in a sustainable manner (resource efficiency and “public goods”) . “More with less”
  - Based on market signals whilst maintaining territorial balance
  - Acting across the whole supply chain (recycling, reduction of post-harvest loss, and new products)
- **Requirements:**
  - Major investment into research and innovation-GMO’s ?

# CAP at Crossroads

Continuation of the last 20 years of reform with market orientation of Pillar I and a stronger Pillar II ?

Or

Return to stronger recoupling of support, maintenance of quotas, higher reference prices and a weaker Pillar II ?

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# « No Direct Payments scenario »

- “The end of direct support would result in structural changes by accelerating the move towards larger farm sizes. The main impacts would likely be not on the overall quantity of agricultural production in the EU but on the way this production is distributed over the EU territory.  The lack of regional production in many areas could have negative consequences for local markets and products and could negatively affect certain up- and downstream enterprises with possible negative repercussions on territorial cohesion. Since the phasing out would take place gradually, these changes would be mitigated over time.”

  Source IA DG AGRI Annex 3 -5.4.1 p.40

# Suggestion for an Alternative CAP-question of legitimacy: Green, Social and Economic

- General DP's under Pillar I to be phased out over transition Period and be reserved for (true) LFA/ANC Farmers (« mountain farmers ») - »Social Policy »
- Payments to farmers based on individual contracts going beyond GAEC (high AW, Environment standards-payment for externalities- »Greening »)
- Countercyclical market support in case of serious crisis based on multiannual budget-Low Safety Net- »Economic (market)Policy »

# For further information

- The CAP after 2013
- http://ec.europa.eu/agriculture/cap-post-2013/index_en.htm

- Commission Communication ‘The CAP towards 2020’
- http://ec.europa.eu/agriculture/cap-post-2013/communication/index_en.htm

- Impact assessment
- http://ec.europa.eu/agriculture/analysis/perspec/cap-2020/index_en.htm

- Legal proposals
- http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/index_en.htm

- Prospects 2012-2022
- http://ec.europa.eu/agriculture/publi/caprep/prospects2012/fullrep_en.pdf