Guide to the

# COMMON AGRICULTURAL POLICY

Guide produced by the *group CAP 2013*

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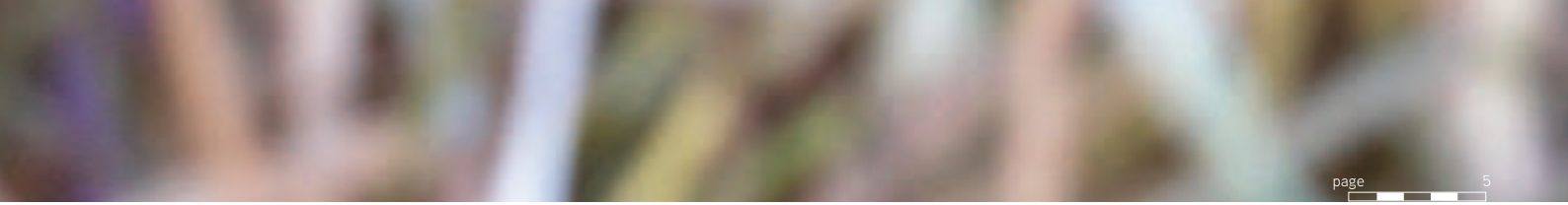
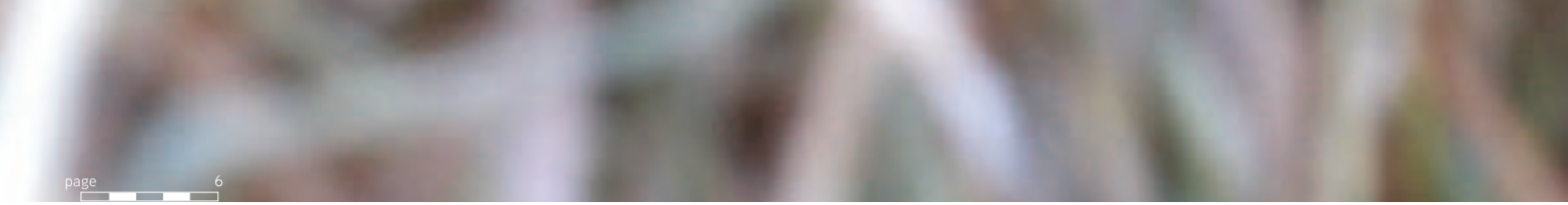




## 2 IMPACTS OF CAP REFORMS



## 3 WHAT IS AT STAKE? WHAT FORM WILL THE CAP TAKE AFTER 2013?





## Translator's note

The Common Agricultural Policy is a complex topic in any language: the words used to frame it form a working compromise between 27 member states and the considerably greater number of diverse expectations as to how it should be interpreted on the ground. Words alone, in any language, can only tell part of a story since they take their meaning from a living context and are an integral part of the world in which they are uttered or written.

By the same token, agricultural products are the transportable and negotiable part of agriculture. They are not the whole story of the places from whence they come, any more than words tell the whole story of the people who worked to grow them.

The prices of agricultural products in Europe and around the world are becoming increasingly dislocated from the costs of production. But prices do not tell the whole story of the intrinsic value of the goods concerned, let alone their cost to the environment, since trading jargon lacks the vocabulary to value natural resources.

Translating this document has been complicated at times by a lack of common ground between economic cultures that use the same word to say things differently. Competitiveness is a constantly recurring example of the genre.

In French, competitivité can be applied to competing on the quality of production as well as price competitiveness: it reflects the shared usage of both a producer and a trader. After one and a half centuries of routinely substituting domestic or local production for a growing proportion of food imports, the English-speaking world now chooses to understand competitiveness only in terms of price, since provenance let alone production, has been allowed to take second place to price.

Worryingly, there are signs of this shift in meaning taking root in French government circles. But that is another discussion for another day.

The English in this document reflects its origins in French quite strongly at times, partly because the CAP was originally drafted in that language. If there is no English equivalent for terroir, now is a good moment to extend our active vocabulary to better adapt our dialogue with the world. It needs to include the interaction between natural forces and human endeavour to produce food with a local identity. People depend on it, wherever it occurs.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## with the support of:

- Fondation JMG
- Fondation Léa Nature
- Fondation Nature & Découvertes
- Fondation Nicolas Hulot
- WWF France

*CAP 2013 group* is a non-profit partner of 1% for the Planet.

This book was printed
in December 2010

# FOREWORD



The Common Agricultural Policy has always been a major pillar of the European Community: the central role agriculture plays in supporting the social, political and economic aspects of the European project is unavoidable, particularly in France. The framework that was put in place bore the hallmark of Europe's agriculture-based vision for protecting and managing our internal market as well as external trade.

This framework, conceived and applied to the first six member states, could only ever have been complex and technocratic, given its aim to manage widely differing agricultures, with their diverse economic structures, as well as their differing relationships with the political world.

The debate has been increasingly complicated for the general public through successive speeches by European Commission officials, farming organisations and policymakers. This knowledgeable élite had an effective monopoly at the time, through their knowledge of the workings of the CAP.

At the dawn of the next CAP reform, things have changed.

The EU now has 27 member states, some of which still have a significant peasant sectors in their economies. One of the CAP's biggest challenges is to successfully integrate the wide spectrum of agricultural structures in the EU-27.

Global problems, whether they be reducing poverty, the fight against climate change or the loss of biodiversity, are central to the current discussions.

The EU has already undertaken multilateral engagements which will obviously have implications for the direction our future Common Agriculture Policy can take. These undertakings cannot be allowed to compromise the EU's sovereignty in the conduct of its social, economic and environmental affairs.

Now, it is clear that the new policy cannot left entirely to the EU's institutions and member state governments to be debated, formulated and implemented. Other stakeholders must allowed to take their place and be heard in the decisionmaking framework. They are needed to ensure transparency in presenting what is at stake in the economic, diplomatic, political, environmental and social areas of the CAP.

This role in particular is one that belongs to society as a whole, in all its component parts, rather than just government.

This is the task that a group of French non-governmental organisations, acting collectively as the PAC 2013 group, has undertaken in preparing this illustrated guide.

Its primary aim is to help readers to understand the CAP by covering different its aspects. These have been assembled in three parts: the basic structure of the CAP; the impact of successive reforms and future challenges. In this last part, our organisations formulate some proposals to change the course of the post-2013 CAP.

# THE FUNDAMENTALS OF THE CAP

WHY WAS THE CAP EUROPE'S FIRST CROSS-BORDER POLICY?
WHY IS THE CAP NOT A NATIONAL POLICY FOR MEMBER STATES?
HOW DO THE OBJECTIVES OF THE MARKET ORGANISATIONS AND SUPPORT FOR FARMERS FIT TOGETHER?
HOW IS THE CAP FINANCED?
HOW DOES THE CAP FUNCTION AND WHO ARE THE MAIN PLAYERS?

**Head of states celebrating the 25th anniversary of the Rome Treaty in 1982**

Source: European Commission - DG Agri

## A common agricultural policy contributes to the economic recovery of postwar Europe.

After the second world war, most European countries were unable to ensure enough food for their populations, despite huge numbers of peasant farmers. The Marshall plan was put up by the US to help with European reconstruction, "digging in" to confront the threat of communism.

This period, during which agricultural production was reconstructed was accompanied by modernisation, is now known as "the glorious 30 [years]". This time was focussed particularly on agriculture, an economic sector which experienced its strongest productivity improvements during that time.

### Convergence between the interests of European states and agriculture.

Countries with a strong agricultural tradition benefitted from a strong administration and powerful public sector agencies, which were going to pave the way for future progress. There were strong public research agencies; a dedicated statistics agency: phytosanitary protection and veterinary services; a training structure operating both entry level and further development courses: most of these were already in place.

However, the dynamism of French agriculture in the 1960s should be seen in the context of a 'silent revolution'. Alliances were being forged between states and the agricultural world that was to build a framework of co-management intended to align state intervention with the actions of those private individuals who were going to become farmers. They took place within a framework of truly national policies.

### The strategic and operational choices of a common agricultural policy

Developing an agricultural policy consists principally in making strategic and operational choices to reflect the objectives that have already been fixed. These have been embodied in the Treaty of Rome and, what is more, have never been questioned since.

One of the cornerstones of the CAP was the fixing of a common price for agricultural products, so as to afford a living income for farmers who had enough land, as well as putting into place a series of measures to guarantee the stability of such a price.

But the implementation of the farming policies in the EEC member states rested upon a range of other legal instruments, based on local, national, European or mixed funding, which were going to foster the restructuring and modernisation of the sector.

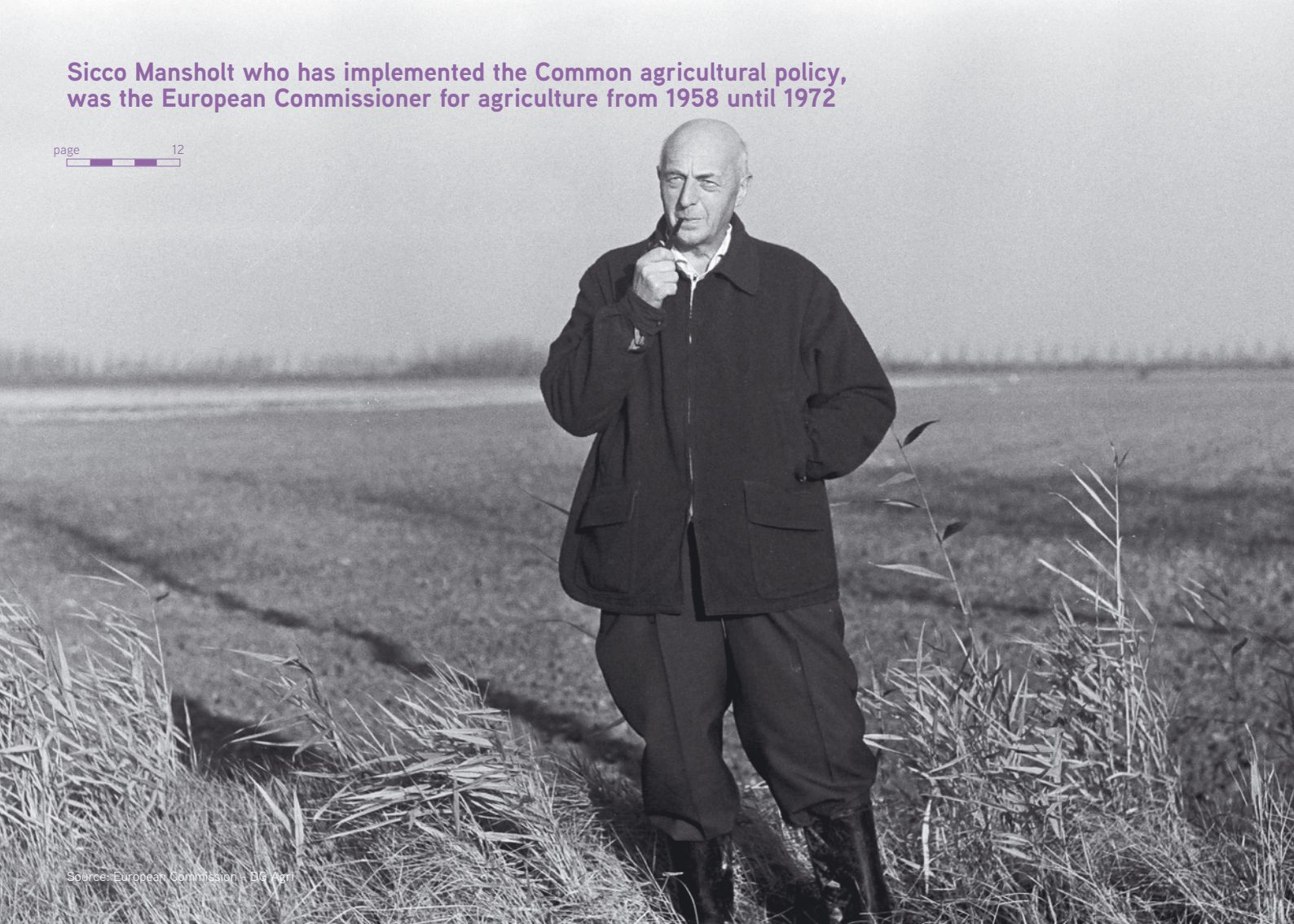
These included structural policies, which encouraged ageing farmers to leave the land and helped young farmers to get started; the restructuring of farmland (the remembrement* in France and irrigation networks), as well as creating statutory bodies, such as SAFER** in France. These had the necessary statutory instruments to intervene and oversee farmland.

There was also support of modernisation, encouraging the development of technical support services; subsidising certain structures, such as livestock sheds for individuals or collective facilities for production; processing or selling an organisation's output.

Marketing organisations were established, which consolidated the products offered on the market by groups of producers, as well as standardising product quality.

*remembrement was the process by which land was redistributed between peasants to optimise their holdings.
** see Glossary

**Sicco Mansholt who has implemented the Common agricultural policy, was the European Commissioner for agriculture from 1958 until 1972**



Source: European Commission - DG Agri

# 2 OBJECTIVES AND FOUNDING PRINCIPLES OF THE COMMON AGRICULTURAL POLICY



## The first fruits of a common agricultural policy: European construction.

In 1945, Europe ended a war which had bled it dry. Driven by the Frenchmen Jean Monnet and Robert Schuman, the states of Europe agreed on the fact that peace would only come about with the establishment of common ground between them. This idea took shape in 1951 with the creation of the European Coal and Steel Community (ECSC) which linked Germany, Italy, the Netherlands, Belgium, Luxemburg and France. The aim was to share policymaking for these sectors and put them under a supranational authority, so as to make a new war a physical impossibility.

From 1957, this co-operation was extended with the signing of the Treaty of Rome, which founded the European Economic Community and Euratom (the European Community's atomic energy agency). It also established a Common Market and with it the free circulation of people and goods within the six member states.

## The CAP: Europe's first cross-border policy

But Europe was also facing a dependency on food imports. Driven by Europe's largest farming country, France, which wanted to play an economic role in the European community, the EEC-6 agreed to integrate agriculture into the Common Market.

The treaty of Rome thus included the setting up of a common agricultural policy and defined its objectives:

- To raise productivity in agriculture by developing technical progress and optimising the production factors.
- To ensure an equitable standard of living for the agricultural population.
- To stabilise markets.
- To guarrantee the security of food procurement.
- To ensure reasonable consumer prices.

Three principles underpinned the Common Market

- A single agricultural market (customs barriers among Member states are removed, health regulations and technical norms are to be standardised).
- Community preference, that is EU agricultural products are to be preferred to third country products which are taxed.
- Financial solidarity: spending is to come out of a single, centralised budget and applied independently of the contributions made by each member state.

Two bodies were needed to meet these requirements: an organisation of common agricultural markets and one or more funds to operate them.

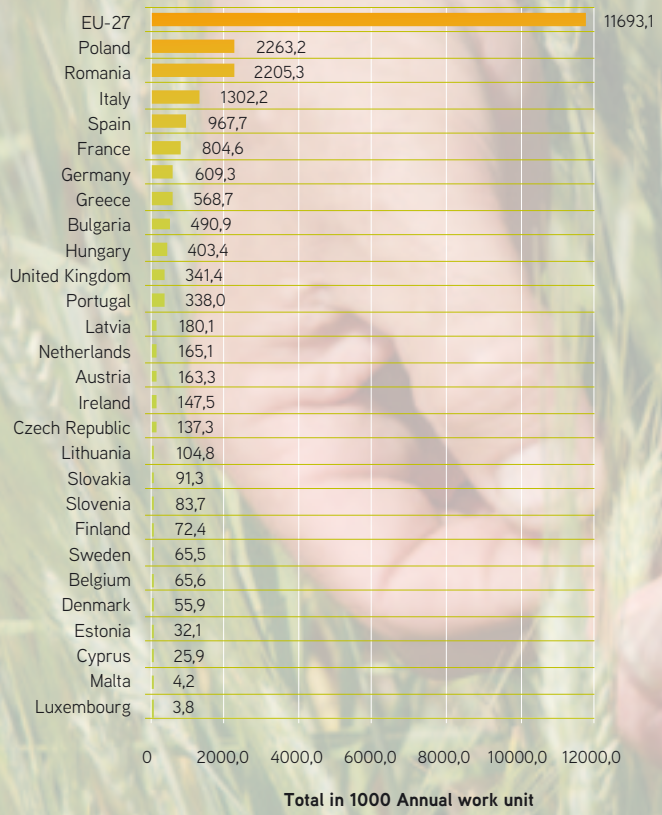
## The CAP starts work in 1962

After several years of negotiations to define the relevant texts, the CAP came into force in July 1962, with the creation of six common market organisations (CMOs) for cereals, pigmeat, eggs, poultry, fruits and vegetables and wine. Alongside this was the European agricultural guarantee fund (FEOGA).

These administrative instruments were based on the guarantee of remunerative prices for staple products: they included effective protection against imports, through variable taxes; export subsidies; minimum intervention prices which triggered public buying. They ensured outlets for European farmers and maintained their incomes against international competition (European prices being higher than world prices).

This policy of modernising agriculture also aimed to make the sector better equipped, as well as freeing up resources and labour for industry, which had strong demand for labour during this period of European reconstruction.

# Agricultural employment in the European Union in 2009 (farmers and employees)



# 3 A COMMON AGRICULTURAL POLICY FOR DIVERSIFIED FORMS OF AGRICULTURE



The 14 million agricultural holdings counted in the 27 member states of the EU in 2007 cover 40 % of the European land surface. They contribute to the shaping of a large part of many European landscapes.

## Great physical diversity...

Their great diversity reflects the diversity of climatic conditions for farming: Mediterranean; moist maritime conditions; dry continental climates; mountain conditions – all of these on soils with widely differing levels of fertility. This diversity is also linked to widely differing socio-economic conditions, that correspond to agrarian systems which are specific to each country or rather each region.

Northern Europe is different to southern Europe, where the small size of holding is often due to their specialisation, often based on more permanent cultures (vines or fruit growing). This agricultural orientation represents half the holdings in Spain, Greece and Italy. Livestock on grassland are more frequent in the wet northern European countries and in the mountains: they represent almost all the Irish holdings and one third of French holdings, compared to one fifth of the European total.

With 23% of holdings under major arable crops and 18 % of holdings specialised in vines and orchards, in 2005 France was close to the European averages for the pattern of holdings.

## ... and economic diversity

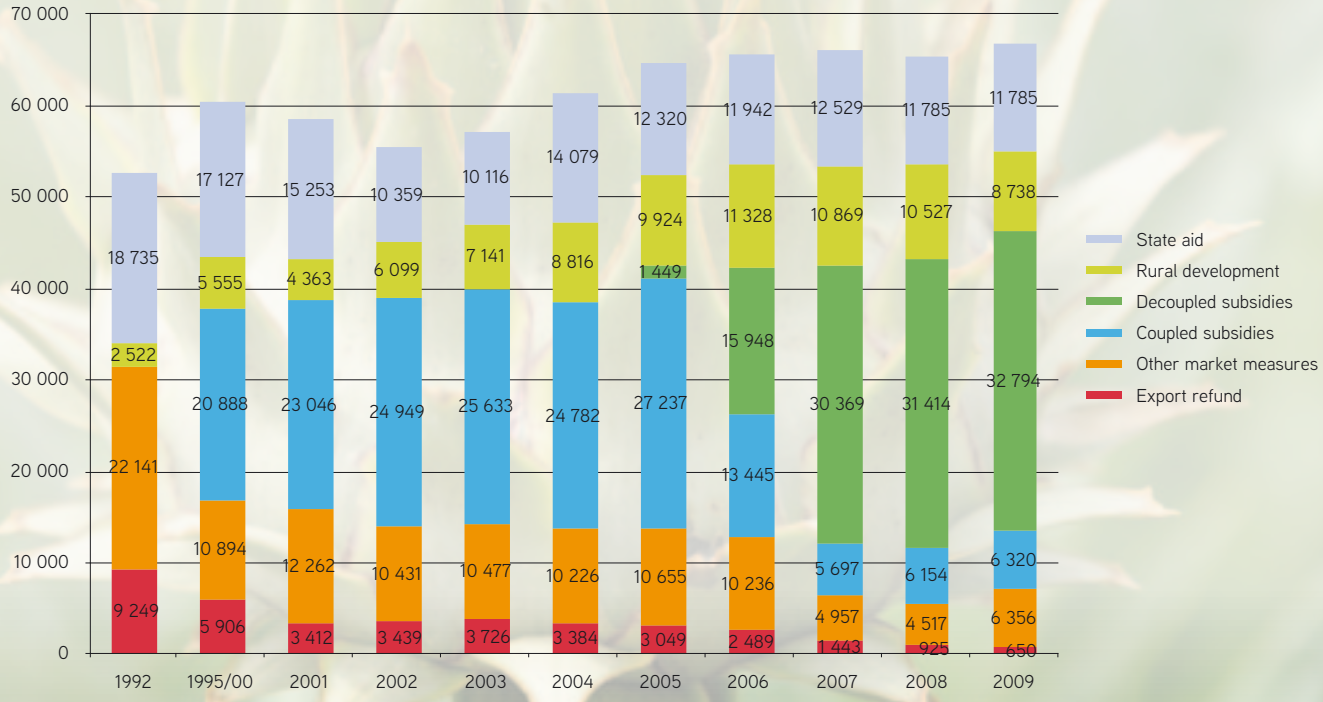
Farming represents 1.2 % of the EU gross domestic product (GDP) and ranges between 0.3 % and 5.1 % of GDP in member states. It occupies 14.5 million farmers, of 11.2 million Annual Worker Unit (AWU) or full-time equivalents. In Romania, agriculture still represents 29% of all employment, whereas it only represents 1.4% in the UK and averaged 5.4% across the EU-27 in 2008. The economic activity it generates goes well beyond agriculture, once all the upstream activities (administration and services, the provision of raw materials and other inputs) and downstream (food industry, the economic activity generated by non-food crops) have been taken into account. Some 55.5 % of the 2008 total EU food industry turnover (965 billion euros) was accounted for by just four countries, led by France with 163 billion euros. Due to significant restructuring in the sector, agricultural employment is constantly dropping: the fall has averaged 3% a year over the past decade.

## Social structures and cultures rooted in very different backgrounds

The Common Agricultural Policy was drafted with a very strong driving force from France. French agriculture in the 1960s was a major economic activity, and had therefore a considerable political and cultural importance. The English-speaking world considers a farm holding as an economic activity like any other, not requiring any special treatment. In every country, if not every region, agriculture has a specific place in socio-economic terms as well as its political and cultural weight: the views and expectations of local populations about their agriculture differ widely.

# Rankink of agricultural subsidies from 1992 to 2009, millions €






Source: European Commission - DG Agri

# 4 WHY HAS THE CAP BEEN REFORMED SEVERAL TIMES?



Since its creation, the CAP has tried to adapt to changing international and European contexts. The history of the CAP is thus divided into three main periods.

## 1962-992: stimulating production

In 1962 the CAP was created to remedy Europe's dependence on food imports. The market management tools of intervention and guaranteed prices very rapidly achieved this aim. Agricultural trade has also been in deficit, but to a lesser extent. Productivity rose, peasants invested and the benefits of the CAP made themselves felt. Productivity per worker rose rapidly as a result of the increasing yields and acreage of holdings.

By the 1970s, supply had outgrown demand for many products, notably dairy; cereals; sugar and beef. Europe had to stock the surpluses and export them on the world market with subsidies, which became increasingly dear. Between 1980 and 1992, the CAP budget tripled. The EU then tried put measures in place to limit supply. But behind these excesses, the deficit in animal feed has grown from 34 million tonnes in 1972-3 to 47 million tonnes in 1992.

In 1984 milk producers were submitted to production quotas and the cereal growers to guaranteed maximum quantities, beyond which prices automatically dropped. Despite all these measures, the stocks persisted and the budget exploded out of control. International pressure was also brought to bear, notably by the USA, intended to reduce the level of protection afforded to its agriculture by the EU. There was additional pressure from food businesses, including European ones, to lower the price of their raw materials and gain access to third country markets.

## 1992-003: responding to international pressure

In 1992, Commissioner MacSharry's reforms brought major changes to the CAP. Guaranteed prices fell by 15% for beef to 30% for cereals. This cut was balanced by a subsidy paid the producer in proportion to existing activity (head of cattle or acreage of cereals respectively). The producer only received these payments if land was 'frozen' or taken out of production. The compulsory freeze was intended to limit the supply, dissipate stocks and allow the GATT agreement to be signed in 1994.

Subsidies allowed the guide prices of the internal EU market to be reduced and with that the tariff barriers that had been so heavily criticised during the negotiations. In 1999, the EU decided to continue lowering the guide prices by a further 15% for cereals and 20% for beef, while raising the compensatory subsidies. The EU thus prepared for the next round of trade talks and was ready to integrate a further 12 new member states.

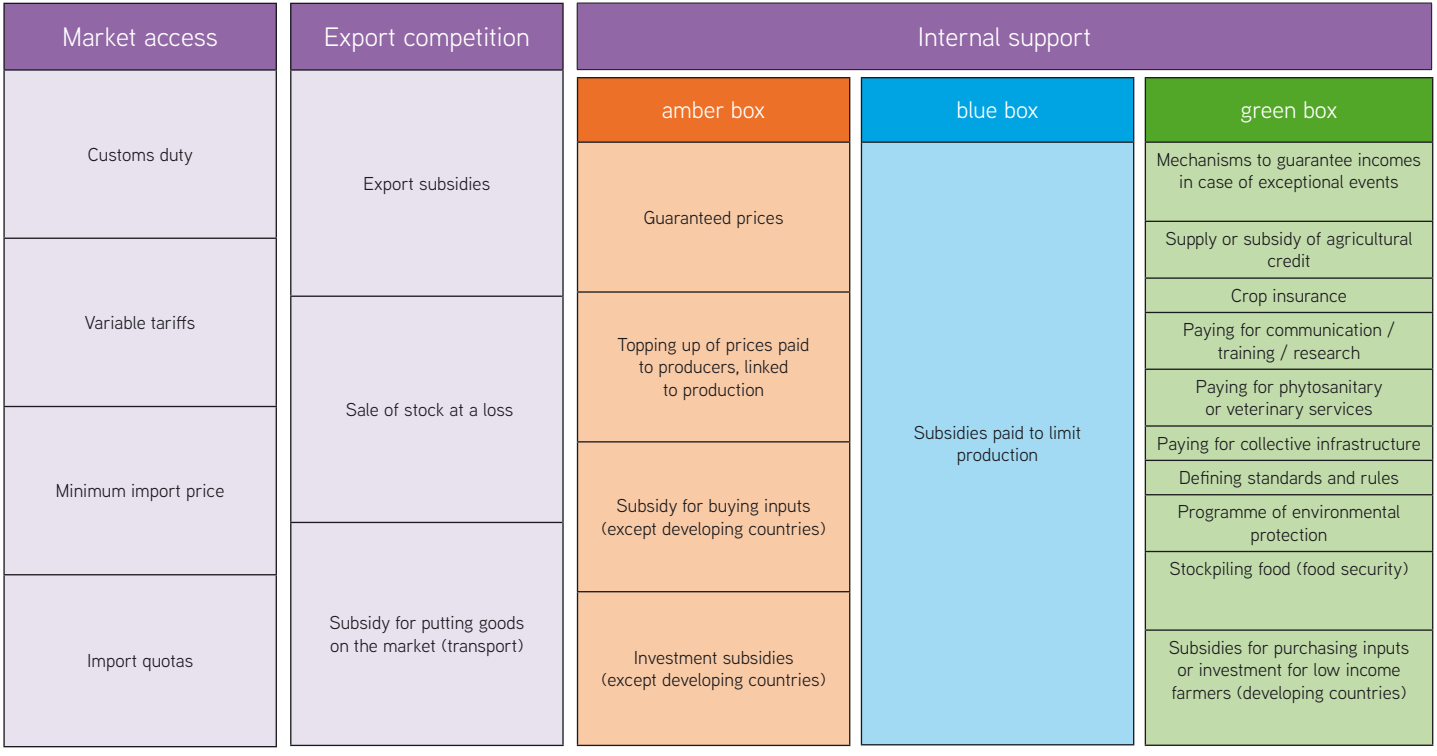
The European Union reinforced the agri-environmental measures and rural development. The foundations of the second pillar had been laid.

## 2003-2013: 'Decoupling' and the reinforcement of rural development

In 2003 came a new reform with two aspects. The compensatory subsidies are decoupled (from production), while the farmer receives one annual payment under the Single Payment Scheme (SPS). This farm income subsidy is independent of production. It is established, in France, on an historical basis for each individual (the total subsidy received during the years 2000, 2001 and 2002, divided by the hectares worked). Under this SPS, farmers received a payment for every registered hectare, regardless of what they produced on this land or even if they produced nothing at all. The second aspect of the CAP after 2003 is an increasing pre-occupation with environmental issues, which led to conditions being imposed on subsidies.

# Themes of the agricultural negotiations in WTO






Source: European Commission - DG Agri

# 5 THE CAP AND THE WTO



The World Trade Organisation (WTO) was created on January 1, 1995, and flowed from the General Agreement on Trade and Tariffs, which had been negotiated in 1947, by 23 countries including 12 Developing countries.

The WTO is a multilateral institution that defines rules, which are adopted by a consensus. The disputes procedure can, unlike the GATT, force members to respect these rules. In reality, the economic and political weight of the countries concerned are determining factors: the richest countries carry more weight than others in negotiations.

Agriculture, as a sensitive sector, was exempted from GATT rules until 1994. Until then there was no limit on the levels or type of protection from imports practiced, while export subsidies were authorised. The Agreement on Agriculture (AoA) passed by the WTO came into force on January 1 1995, following the Uruguay Round of talks. The aim of the AsA is to liberalise trade by lowering all barriers to international trade.

## Subjects for negotiation

For the purpose of comparing and limiting state intervention in agriculture, the AsA classes policies under three headings.

## Access to the market

Before 1995, numerous forms of protection from imports existed: these included customs duty; import bans; import quotas; variable levies. The AsA requires all these measures to be converted into a revised customs duty (fixed percentage of the value of the imported goods or a fixed amount per tonne/head of livestock/ other appropriate unit) and then to reduce them progressively.

## Internal support

To analyse their impact on trade, the AsA places domestic agricultural subsidies in three categories, referred to as the amber, blue or green boxes. A subsidy goes into the amber box if it is linked to the price or production of the current year, or, in the case of developed countries, to inputs or investments. Subsidies in the amber boxes must be reduced. Subsidies in the blue box if they limit production (compensatory payments, compulsory set-aside, grubbing-up bonus). Subsidies in the green box that do not relate directly to price support for producers and which are not paid for by consumers may be increased (eg research; decoupled direct aid; envionmental packages...)

- Export subsidies

This heading covers all measures that help exports: export subsidies; support for state-owned enterprises; excessive food subsidies. These subsidies are to be reduced.

- An inefficient ideology

The general idea of the AoA is to curb state intervention to stimulate trade. This approach has numerous limits.

- Agriculture is not a sector like any other, since agricultural markets do not self-regulate themselves, given that the demand for food is inelastic and the supply is subject to climatic shortages.
- There is too much at stake in food security, environmental issues and agricultural labour to let international markets direct agriculture.
- Limiting the right of developed countries to protect their domestic market is not always beneficial to less developed countries in the Third World, if they are encouraged to grow export crops instead of their own national food crops as well as marginalising small producers.

The objectives of the CAP have evolved to include new challenges such as managing natural resources and the fight against climate change

Source: European Commission - DG Agri

# 6 THE CURRENT OBJECTIVES OF THE CAP

During the past 20 years, the EU has seen profound changes which have led it to change its agricultural policy.

- Six successive enlargements have seen the number of member states rise from six to 27, making the European Union the largest consumer market in the world (in purchasing power). It also spans a very wide diversity in its agricultural systems.
- Major health crises, such as the BSE ('Mad Cow' disease in 1996) and the dioxin crisis of 1999, have led the EU to improve its crisis management mechanisms, to ensure healthy and reliable food standards. These crises also revealed that consumers expect food to be of high quality, diversified and from readily-identifiable sources.
- Environmental degradation and animal welfare have focussed public debate on these issues.
- From 1994, agriculture has been on the agenda of international negotiations aimed at removing restrictions on trade. This was embodied in the WTO's Agreement on Agriculture (AoA) and came into force on January 1, 1995.

## A necessary evolution in objectives, laid out in treaties and jurisprudence

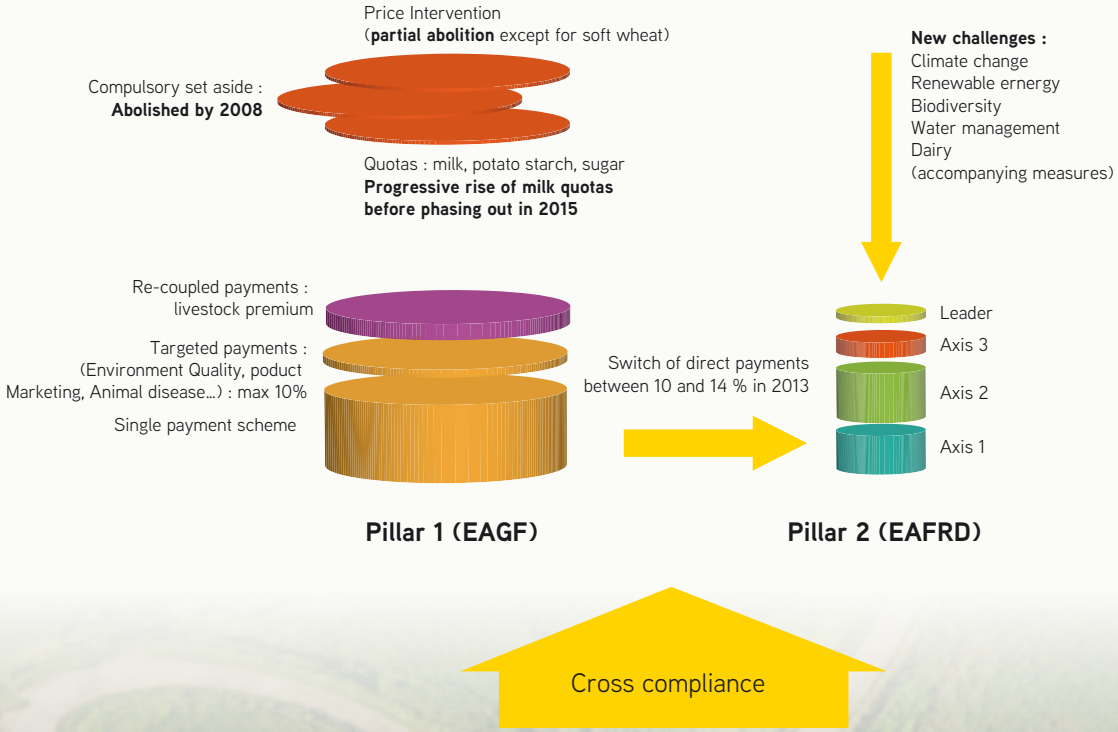
Even if the objectives of the Treaty of Rome have never been put in question and are even repeated in extenso in the Treaty of Lisbon (article 33), the European Court of Justice believes that the aims of the CAP are defined sufficiently broadly and numerous enough to give the EU legislator a free hand to adapt the CAP to fresh demands. Successive agreements have determined the changes in the CAP allowing the adaptations to be identified.

## The new challenges that follow the CAP health check of 2008

- Biodiversity: since agriculture occupies 40% of the European Union's land, it plays a major role in determining biodiversity. This can be seen in a loss of both habitats and biodiversity. New practices and new farming systems can protect and restore biodiversity, in both natural and domestic environments.
- Water management: water is a key resource for agriculture. Its quality and supply are essential resources held in common trust for society. Major changes are needed to observe the water quality standards in the Nitrates Directive, as well as reducing the quantities of water used in farming.
- Renewable energies: agriculture is the biggest user of solar energy, harnessing photosynthesis in plants. Agriculture should be able to develop this resource, on condition that its main mission, that of producing food, is not compromised and that its energy accounting should remain largely positive.
- Climate change: Europe wants to set an example in reducing greenhouse gas emissions. Agriculture can play an important role in the reduction of greenhouse gas emissions, as well as storing carbon in the soil. European agriculture will also have to adapt to changing temperature ranges and precipitation patterns.
- Restructuring the dairy sector. The increasing volumes of milk quotas, before their removal in 2015, has already led to a serious milk crisis. The emergency measures that have been taken should be followed by structural changes to consolidate the sector, while conserving the benefits in terms of employment and territorial management.

# Pillars structure after the CAP health check in 2008





## Two pillars have supported the architecture of the CAP since 1999.

Common Agricultural Policy funding has been supported by two pillars since 1999.

### The first pillar: subsidies for production and market organisation

The first pillar funds market subsidies and farm incomes while the second pillar is intended to support environmental measures and rural development under the CAP.

- The Single Payment Scheme (SPS): these are decoupled payments which are not linked to production. Depending on the member state concerned, they may or may not be calculated on the basis of certain historical reference points: they are generally paid per hectare.
- Various subsidies were paid to producers per hectare or per head of livestock, to offset the decline in agricultural prices closer to world prices.
- A range of measures to manage output volumes: vineyard planting rights (1962), sugar (1968) and milk quotas (1984), set-aside (1992), ceiling on cotton, olive oil and tobacco production (2004).
- Direct subsidies are conditional on each producer's compliance with certain environmental requirements,such as good environmental conditions (GAEC): referred to as conditionnalité in France, this is known as cross compliance in English.

The first pillar is funded entirely out of a single European fund: the European Agricultural Guarantee Fund (EAGF).

### The second pillar: rural development

The second pillar of the CAP involves rural development and environmental policy, also known as agri-environmental measures. These include support for:

- Agri-environmental projects

Support for Less Favoured Areas (eg compensatory payments for "natural handicaps")

- Improvement of the processing and marketing of agricultural products
- Subsidies to help establish young farmers
- Investments in farm holdings (eg subsidies for livestock housing)
- Other subsidies: forestry (major works); agricultural pre-retirement; animal welfare; land improvement; farm diversification

At the time of the drafting of the CAP 2008 health check, new cross-sector challenges were identified that must be met out of the second pillar: climate change; renewable energy; water management; biodiversity and the milk sector. The second pillar is financed in part by the European Agricultural Fund for Rural Development (EAFRD) and the balance is financed from national sources, referred to as co-financing.

### Balancing links between the pillars

Despite a growing proportion of subsidies coming from the second pillar, only €14.1 billion of EU funding is attributed in the budget (excluding co-financing by member states and regions). This is just 25 % of the European funding allocation, against 75% for the first pillar (2008). Nevertheless, a financial link does exist between the two pillars. In the 2003 reform, provision was made for modulation,which is cofinanced by member states, which transfers funds from the first pillar to the second pillar. Originally set at 5 % of the direct production subsidies, the aim at the end of the 2008 CAP health check is to take this share up to 10 % by 2013.

## **Market management instruments** (after the CAP health check in 2008)



| | Intervention | Private storage | Specific intervention measures in case of serious market disruption | Disposal aids | Supply management | Import duties | Export subsidies |
|---|---|---|---|---|---|---|---|
| Cereals (except rice) | ● | | ● | | | ● | ● |
| Oilseeds and protein plants | | | | | ● | | |
| Rice | | | ● | | | ● | ● |
| Flax and hemp | | | | | | ● | |
| Hops | | | | | | | |
| Sugar | ● | | | | ● | ● | ● |
| Seeds | | | | | | ● | |
| Olive oil | ● | ● | | | | ● | |
| Wine | ● | | ● | ● | ● | ● | |
| Fruits and fresh vegetables processed | ● | ● | | | | ● | ● |
| Bananas | | | | | | ● | |
| Horticultural products | | | | | | ● | |
| Pig meat | ● | ● | ● | | | ● | ● |
| Sheep meat and goat meat | | | | | | ● | |
| Beef meat | | | ● | | | ● | ● |
| Poultry meat | | | | | | ● | ● |
| Milk | | | ● | ● | ● abolished by 2015 | ● | ● |
| Milk product | ● butter and skimmed milk powder | ● butter | ● | ● whole milk powder : feeding calves and caseinates | | ● | ● |
| Eggs | | | | | | ● | ● |
| Ethanol | ● | ● | | | | ● | ● |

Source: Chambers of agriculture

Up until 1992, the CAP was built around supporting prices. In 2008, just 7 % of the CAP budget are dedicated to supporting prices.
This change is the result of a reduced political will on the part of member states policies to intervene, preferring to let the market adjust the supply to the demand. This has resulted in a technical simplification in 2008 of the market regulation part of the CAP.

Unlike such financial measures as direct subsidy, the CAP has an array of 'physical' instruments which can be used to regulate agricultural markets. For instance, by applying the principle of community preference the EU supports its own agricultural markets, even if it leaves or delegates market organisation to the producers themselves.

## The role of the Common Market Organisations

The Single Common Market Organisation structures the EU's domestic market for agricultural products. It comprises 21 basic products, which once had their own separate Common Market Organisations (CMOs) until 2008: these covered cereals; rice; sugar; dry forage crops; hops; olive oil; fruits and vegetables; wine; tobacco; beef; milk and dairy products; pigmeat, lamb, goatmeat, poultrymeat; eggs; cotton; seed crops; honey; linen and hemp.

While the scope of their powers to intervene have been considerably reduced throughout the reform process, the CAP is still equipped with intervention powers that are intended to support prices, should the market price go below a threshold level, as can happen, for example with wheat. Public purchasing and private storage aid can all be agreed, under certain conditions, when surplus stocks are clogging the market, as can happen for example with butter and milk powder, just as export refunds exist to sell off excess stocks in third country markets. To shift these excesses, other measures can be activated, for example the free distribution of milk in schools or subsidised sales of milk powder for livestock feed.

## Producer organisations as managers of supply

While it varies according to the products concerned, the purpose of the Single Common Market Organisation is to decree marketing standards: to improve the economic conditions of production; bringing to market and improving the quality of the products concerned. This can include grading, sizing, wrapping, packaging, storage, transport, presentation, declarations of origin and labelling. The producer organisations and the interprofessional organisations are considered as 'market regulators' in the sectors of olive oil, hops, fruits and vegetables and tobacco.

The interprofessional organisations represent vertical groupings of farmers, food manufacturers, wholesalers and sometimes retailers, to decide the rules that will govern the marketing of products, such as the diameter of fruit, marketing dates, maximum quantities and price ranges. In the milk and sugar sectors, production quotas were put in place as part of the market framework, with the aim of controlling production and to ensure more stable prices for producers. For sugar, a quota is attributed to a processing business. For milk, the Common Market Organisation fixes quotas by country for a given period: these quotas are then shared out between producers.

In some Member States, direct payments are still calculated according to production levels before 2002

Source: European Commission - DG Agri

# 9 DIRECT PAYMENTS TO FARMERS



CAP payments, direct subsidies, Single Payment Scheme, compensation subsidies, direct payments...

## From a subsidy that compensated for lower product prices to income subsidy

Until 1992, European farmers were guaranteed a profitable price when selling their products. If market prices dropped below a certain level (the intervention price), the EU undertook to buy their output. During 1992, the EU decided to lower this intervention price, while compensating producers directly for the lower price. Producers received compensatory subsidies for cereals and a premium per head of livestock for their animals. These are compensatory payments for lower product prices. Certain kinds of production, such as vegetables, pigs, or chickens did not qualify for this type of subsidy. However meat and milk have been undirectly subsidized by the compensatory subsidies for cereals.

In 2003, the compensatory subsidy scheme was transformed. These subsidies are now independent of production (decoupled). They are managed under the Single Payment Scheme (SPS) and have become a farm income subsidy.

## The Single Payment Scheme, a 'single' subsidy per hectare

The SPS entitles the holder to a subsidy per hectare. The value of the Single Payment is based on the previous compensatory subsidies paid to farmers between 2000 and 2002. One Single Payment unit = The average of hectares between 2000-2002 multiplied by the yield of 2002 and by € 63/ton for crops, divided by the number of hectares that generated these 'historic' subsidies. For animals, this is calculated with the average of herd between 2000-2002 multiplied by the animal subsidy of 2002 divided by the forage area.

However, some countries chose to implement the SPS on a regional basis, so as to avoid setting subsidies on a purely historic basis and thus reduce some of the inequalities in the distribution. In this case, the Single Payment has the same value for all farmers in the region.

## Decoupling and its limits

A farmer qualifies for the SPS, whether (s)he produces anything or not on the land for which it is paid. (S)he also has the right to grow a different crop from that which was used to calculate the 2000-2002 average subsidy. In this way, SPS is 'decoupled' from production. Decoupling was put in place under pressure from the World Trade Organisation (WTO). According to the WTO's Agreement on Agriculture (AoA), production-linked subsidies distorted the rules of free trade. However, those payments remain coupled to eligible lands.

During the 2003 reform talks, certain EU member states warned of the dangers of decoupling. These included the disappearance of agricultural activity in certain less favoured areas, the loss of certain kinds of production. So member states then had the option of maintaining certain production-linked aid. For example, the subsidy for suckler cow can remain fully coupled. It is not counted in the calculation of the SPS and the farmer will not receive any suckler cow payments if (s)he no longer possesses a cow.

## A regime that requires respect for the environment

The 2003 reform introduced another key element into the CAP: cross-compliance to qualify for subsidies. All the Payments made to farmers are conditional on compliance with certain elementary management rules (ERMG) and respecting Good Agri-Environmental Conditions (GAEC). In the event of non-compliance, farmers are penalised. Cross compliance is supposed to set European agriculture on the road toward sustainable agriculture.

Modernisation of agricultural holdings and encouragment of tourism activities are examples of measures cofunded by the EU Rural Development policy

# 10 AN INTEGRATED RURAL DEVELOPMENT POLICY BACKED ON TO THE CAP



Which other European policy sees it remit running from field to plate? In 1999, the ambition of former agriculture commissioner Franz Fischler was to establish rural development as the second pillar of the CAP, to stand alongside support for markets and direct payments.

Before the 1999 reform, rural development was limited to the framework established by the EAGF Guidance section, which started in 1972, by helping ageing farmers to leave the sector and drafting development plans. In 1975 subsidies for rural development were started for mountainous regions and Less Favoured Areas. These subsidies became part of the objective 5a in structural funds from 1985. The CAP budget for rural development grew gradually, with the successive reforms of 1992, 1999 and 2003.

## The ambition to have an integrated rural development policy

The Cork conference, organised in Ireland by the European Commission in 1996 marked a turning point. Rural development was to become the principle which underpinned all rural policy, with the following objectives: reverse the rural exodus; combat rural poverty; stimulate employment and equal opportunity; find a response to the growing demands for product quality; rural health, leisure and ultimately to improve the wellbeing of rural areas.

The heads of state gave their blessing to this political project at a council meeting at Berlin during 1999. A single legal instrument ensures a coherent link between rural development, market policies and direct subsidies. This document is the Regulations on Rural Development (RRD). The principle of multifunctionality was recognised. This is the recognition of the role that farmers can play by providing services other than growing food: maintaining rural spaces, managing the environment and economic diversification.

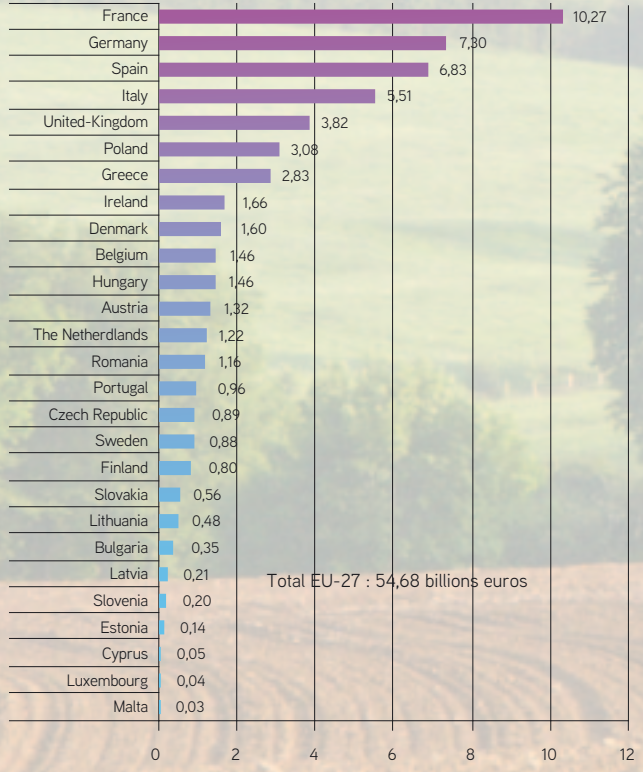
According to this vision, farming is an integral part of rural development. At the time, policy-makers talked about having an integrated vision and the second pillar of the CAP acquired several mechanisms, including:

- A socio-structural policy, including: modernising farms; compensation for natural handicaps such as mountain regions and less favoured areas (LFA); help to set up young farmers; pre-retirement for old farmers.
- An agri-environmental policy, including: agri-environmental measures (AEM), grassland bonus; Natura 2000.
- A policy of diversification in the rural economy, including: farm tourism; renewal in villages; heritage conservation.
- A so-called "bottom-upwards" approach in the local action groups (LAGs) under the LEADER programme.

## The relative lack of funding for the second pillar

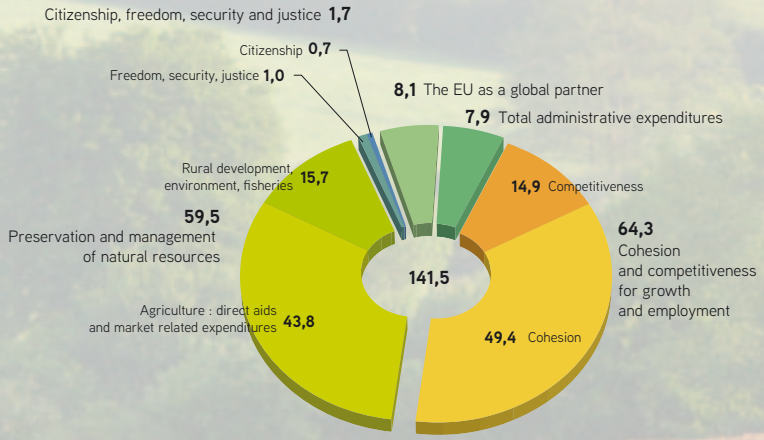
Since 1999, two pillars have existed to support the CAP. Financial transfers of funds from the first to second pillars supplement. The balance between the two pillars remains nevertheless relative, since the first pillar accounts for 74% of the CAP budget, against 26% for the second pillar, including measures that should receive up to 50% in cofinancing from member states. What is more, since the implementation of this policy is done by states – if not regions (on the basis of the subsidiarity principle) – every policy is different and reflects either national or regional priorities.

## CAP expenditures by member state
(EAGF + EAFRD 2009)




Total EU-27 : 54,68 billions euros

## Budget of the European Union in 2010
(billions euros)




Total = 1,2 % of the EU-27 GDP

Source: European Commission / DG Budget © ChristopheB - Fotolia.com

# 11 THE EUROPEAN BUDGET: WHO GIVES WHAT AND WHO RECEIVES WHAT?



The budget of the European Union in 2010 is €141.5 billion. This sum is split between different budgeting priorities and themes: cohesion; employment; protecting natural resources (including the Common Agricultural Policy); co-operation. In 2009, the CAP represented 46 % of the total community budget.

The €55,2 billion spent on it in 2009 makes the CAP the first largest item on the European budget, although it accounts for just 0.5 % of the EU-27 Gross Domestic Product.

## €318 per person a year across Europe...

The EU budget for 2009 was equivalent to €318 per EU citizen. Some 47.7 % of the EU budget being spent on agriculture and rural development (not counting fishing and the environment), equivalent to €119 per European citizen for the central EU budget and €145 including state subsidies have permitted the support of agriculture and maintenance of rural areas.

## The EU's financial resources

The EU does not raise taxes, so where does this budget come from? It is the EU member states which make resources available to the EU.

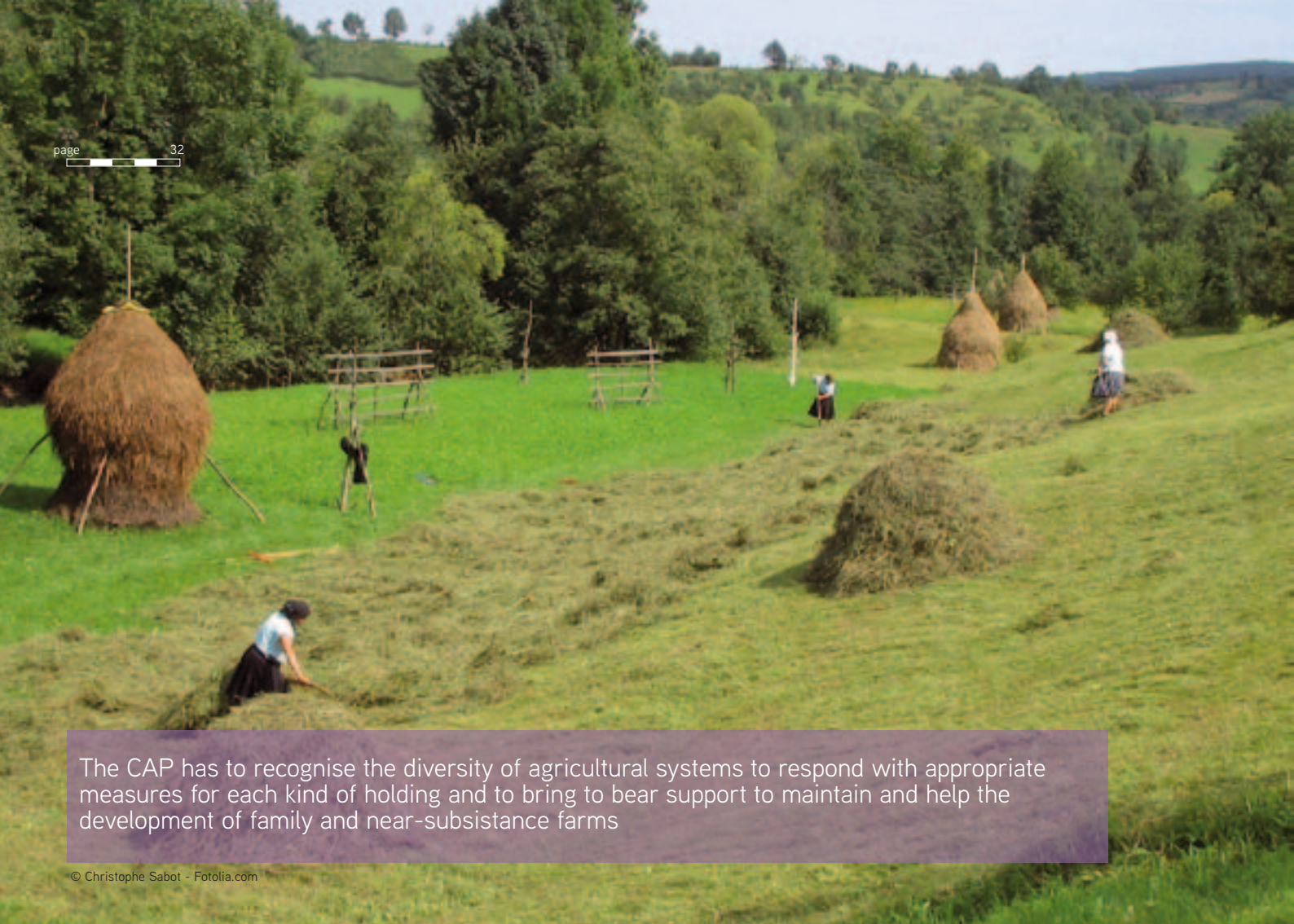
- Certain products are taxed at the border on entering or leaving the EU. These taxes are referred to as Traditional Own Resources (TOR) and contributed 12.9 % to the total budget.
- Every member state makes available a percentage of its VAT revenue, which constitutes a further 12.1 % of the European budget.
- Every year, member states must give the EU a percentage of their Gross National Income (GNI), in other words some of their national wealth. At 72.5 %, this is the largest source of funding for the EU budget. There is a wide disparity in these contributions between member states. Germany's contribution, for instance, is six times higher than what Poland pays.

## Where does this money go? The rate of return between net contributors and net beneficiaries

Every year each member state establishes its needs for European funding. The sectors in which the EU intervenes are often very different from one member state to another. If one takes into account what each member state gives and receives from the EU, some are net beneficiaries, receiving more than they give; others, on the other hand, will be net contributors, giving more than they receive. This is the basis of financial solidarity, a founding principle of the EU ever since its founding.

The rate of return is equal to the difference between the sum received and the sum taken which determines the status of each member state. In the same way, one can determine a rate of return for agriculture by working exclusively with figures relating to agricultural activity.

Nevertheless, the rate of return is a source of tension between member states. In the context of an economic crisis, the net contributors have trouble in accepting the principle of financial solidarity.



The CAP has to recognise the diversity of agricultural systems to respond with appropriate measures for each kind of holding and to bring to bear support to maintain and help the development of family and near-subsistance farms

# 12 A LARGER EUROPEAN UNION WHICH CHANGED THE FACE OF AGRICULTURE



When the 12 central and eastern European states joined the European Union (10 in 2004 followed by Romania and Bulgaria in 2007), the EU doubled its agricultural population and saw a 45 % rise in its useable agricultural land. In the new member states, the proportion of agricultural workers in the active population was 13.3 % in 2008 – no less than four times greater than in the EU-15 (3.3 %).

Yields remain low and irregular in the central European EU-12, often less than half the EU average. So the scope for improving agricultural production are very great. Certain kinds of farming (pigs, potatoes), already occupy a major place in the common market.

The nature of farming in these countries is very disparate: the days of collectivisation left huge agricultural holdings, which have been taken over by private funds, which live alongside holdings run by large families. The exact proportions vary according to the country: holdings of between 200 and 2,000 hectares are common in the Czech Republic, while small family farms occupy 80 % of the useable farm land in Poland and Romania.

## A renewal of agriculture despite restrictive membership conditions

The transition to a market economy and the establishment of land ownership and capital had destabilised production in these states and on joining, none of these new member states had recovered to 1989 production levels. Over and above the polarisation between large and very small holdings, which were barely integrated into the market, there emerged a peasantry with medium-sized holdings who were gradually being supported by the CAP. But producer organisations remain embryonic. Rural development policies encourage a growing interest, despite the lack of organisational capacity in terms of both the administration and the citizens.

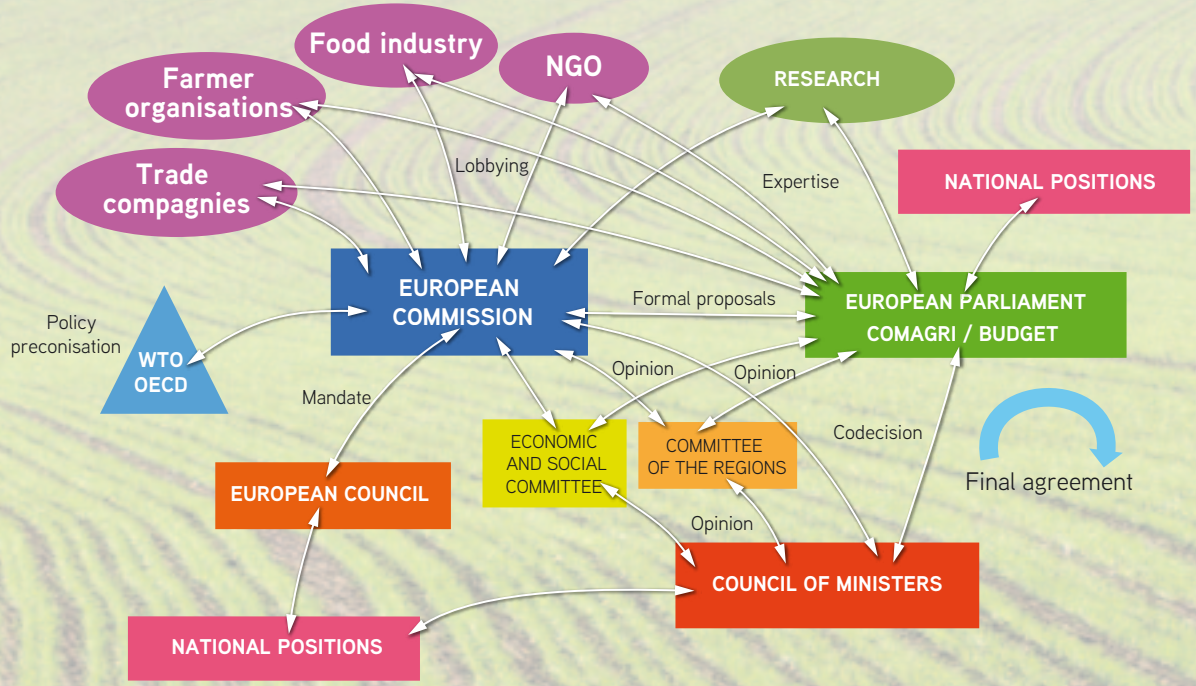
Negotiations on the total direct subsidies to be paid were particularly difficult. The process of harmonisation with the EU-15 saw a transition in the rate of each payment (per hectare, per animal or per ton of milk) from 25 % of those rate in the EU-15 states in 2004 to 100 % by 2013. Nevertheless, the central European EU-12 have been allowed to add direct national subsidies ("top-ups"), up to 30 % of the unit rates.

## Recognising the diversity of central European agricultures

The CAP has to recognise the diversity of agricultural systems to respond with appropriate measures for each kind of holding and to bring to bear support to maintain and help the development of family and near-subsistance farms. These farming patterns are the corner stone for economic and social development in widely differing countrysides and contribute to the upkeep of naturally high value terroirs. The way in which the reform of small holdings and the development of rural labour is carried out by the authorities will be crucial for the diversity and value of European rural regions.

# Graph of the political discussions on the CAP





# 13 WHO MAKES DECISIONS ABOUT THE CAP?

The European political system comprises four major institutions: the European Commission, the European Parliament, the European Council and the Council of Ministers. If the European Council of Heads of State and Government is the highest political orientation body, it meets twice a year, does not vote and has no legislative authority.

## The European Commission

The executive arm of the European Union, the Commission, implement the decisions and monitors compliance with treaties. It has the power to formulate proposals that it submits to the European Council and the European Parliament. Its members are Commissioners, who are named by member state governments. The Commissioners administer 25 directorates general. It is the Directorate-General for Agriculture and Rural Development (DG AGRI) that has the job of running the CAP and which is mandated by the European Council to generate proposals to reform the CAP.

## The European Parliament

Until the Treaty of Lisbon, the European Parliament was only consulted on the CAP. An elected assembly since 1979, the European Parliament has seen its powers extended to obtain a co-decison with the Council, notably on the CAP (we now talk about an ordinary legislative procedure).

According to article 37.2 of the new EU treaty, "...the European Parliament and the Council, decreeing according to the ordinary legislative procedure and after consultation with the Economic and Social Committee, shall establish the Common Market Organisation for agricultural products anticipated by article 34.1 as well as other necessary mechanisms for the pursuit of the objectives of the Common Agricultural Policy". The parliamentary commission responsible for agriculture and rural affairs is COMAGRI. Elsewhere, the European Parliament is on an equal footing with the Council to decide the financing for the CAP and even has the final word in case of disagreement.

## the Council of Ministers

Composed by agriculture ministers from the member states, it meets every month in Brussels or Luxemburg to manage the CAP. It is an instance of intergovernmental negotiation, since the Council discusses proposals from the Commission on matters of agriculture, notably at times of reform (at the special agriculture committee, the SAC). But it is the European Council which brings together the heads of state and their governments which decides in the direction of general policy.

## On the international scene: the roles of the WTO and the OECD

As part of the procedure, EU decisions are submitted to the rules of international trade. The WTO trade agreements and especially the Uruguay Round, fix a framework for the CAP. The most onerous constraint on the CAP is that it must meet the regulations of international trade that have been decided by heads of state and their governments in the WTO sessions. Upstream from this free market outlook is the work carried out by the OECD on the efficiency of economic policy, which influences the European Commission's proposals. The OECD supports growth in world trade, which presupposes a reduction in protection to integrate agriculture into the multilateral world business system as closely as possible. The OECD was the source of the theoretical work on decoupling subsidies and on the multifunctionality of agriculture.

Former Commissionner Marian Fischer Boel speaking to milk sector stakeholders, January 2008

Source: European Commission - DG Agri

# 14 WHO INFLUENCES THE CAP?

Public decision makers are confronted with a wide range of interest groups according to issues and nationalities. They are constantly talking to industry groups, non-governmental organisations (NGOs) and territorial bodies.

## Professional organisations

The Committee of Professional Agricultural Organisations (COPA) is a group of the main agricultural organisations of EU member states. It represents "European agricultural interests" in Brussels. The natural allies of COPA is its co-operative counterpart, the General Confederation of Agricultural Co-operatives in the European Union (COGECA) and the Conseil européen des jeunes agriculteurs (CEJA). Between them, they defend the principles of strong regulation and maintaining direct subsidies. With their economic and financial weight, specialist product organisations carry out their own lobbying. The European Coordination Via Campesina is the other European trade union organisation. It promotes an agricultural policy based on food sovereignty, effective control of production and a fair sharing of public subisidies.

## The food industry and businesses

The Confédération des Industries Agro-Alimentaires de l'UE (CIAA) or Confederation of the food and drink industries of the EU, represents the European food industries by sector of transformed products as well as the large brand owners. The European Liaison Committee for the Agricultural and AgriFood Trade (CELCAA) leads the interests of traders and exporters by category (eg Eucolait for dairy products, Coceral for cereals, FEFAC for animal feed). These firms primarily defend an efficient export-driven food industry sector.

## Non-Governmental Organisations (NGOs)

Environmental NGOs criticise the CAP for its lack of efficiency in protecting natural resources, on animal welfare and product quality. the most active are WWF, BirdLife International and the European Bureau for the Environment (EEB). The European confederation for relief and development (CONCORD) advocates consistency between the CAP and cooperation policies.

## Territorial bodies

Local authorities are increasingly sought out to cofinance rural development, as the regions turn their hand to the CAP. The Conference of Peripheral Maritime Regions (CRPM) defends the interests of isolated, insular regions the furthest away from decision making centres. Euromontana is the spokesman for mountainous regions; the European network of periurban regions (PURPLE) groups the local authorities where periurban agriculture is present; the association of European regions of products with (protected) origins AREPO monitors the situation to ensure that products attributed to a certain region "...should not be drowned in global agriculture". The network of European GMO-free regions promotes policies in favour of sustainable agriculture, biodiversity and protected origin products.

## Rural development networks

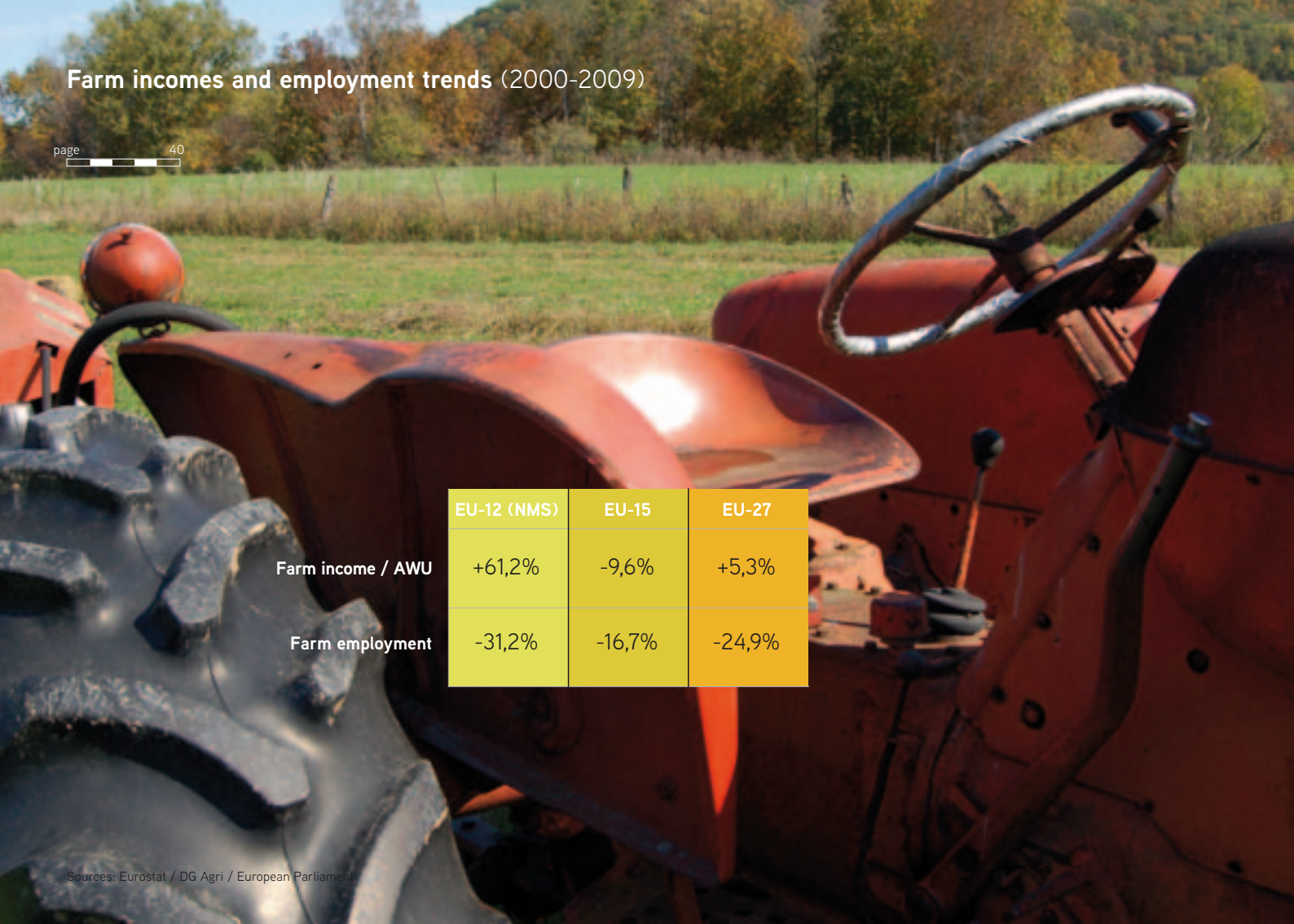
Rural development organisations are especially present in Scandinavia and central Europe. The networks Prepare, Ecovast, Forum Synergies and ERA are arguing for a CAP based on the second pillar. These networks of local operators in rural development work with local authorities and governments have developed thanks to programmes such as Leader, structural funds and the European social fund.

# IMPACTS OF CAP REFORMS

WHAT HAVE BEEN THE ECONOMIC, SOCIAL AND ENVIRONMENTAL IMPACT OF CAP REFORMS?
HAVE FARM INCOMES IMPROVED?
HAS THE CAP CONTRIBUTED TO JOB CREATION IN RURAL AREAS?
HAVE ENVIRONMENTAL ISSUES BEEN SUCCESSFULLY INTEGRATED IN THE CAP?
HAVE CAP REFORMS FINALLY RAISED THE EU'S FOOD SELF-SUFFICIENCY?

# **Farm incomes and employment trends** (2000-2009)





| | EU-12 (NMS) | EU-15 | EU-27 |
|---|---|---|---|
| **Farm income / AWU** | +61,2% | -9,6% | +5,3% |
| **Farm employment** | -31,2% | -16,7% | -24,9% |

Sources: Eurostat / DG Agri / European Parliament

One of the CAP's objectives is still to guarrantee an equitable standard of living for the agricultural world. But the difficulty in sustaining farm incomes is accompanied by the loss of jobs on farms.

Farm incomes experience ups and downs as a function of changes in agricultural prices. While they rose by 7 % in the European Union between 1995 and 2002, they have kept falling since 2005. The real farm income per worker fell by 11.6 % in the EU27 in 2009, following a drop of 1.8 % in 2008 [Eurostat]. In France, these drops were 18.5 % and 12.4 % respectively.

## Wide income disparity between different categories of holding

The earnings gap compared to other social and professional categories is far from being filled in every country, region and sector. There remains a disproportionate gap between the value added by the farmer (farm earnings) and that added in the downstream food production chain. At a farm level, some of this can be explained by differences in labour productivity, but also by the unequal sharing of subsidy in relation to the size and nature of the holdings. On average, 20 % of holdings receive 80 % of all direct subsidy, while only representing 59 % of the cultivated area and 25 % of the workforce in 2008. Thus, the efficiency of the policy to support farm incomes is very arguable.

Now the trend – and it is not new – is that if the level of average farm incomes is to be preserved in good years, it is at the cost of major restructuring, entailing a loss of farm jobs and an accelerating concentration of holdings. It has been estimated that the maintenance of farm incomes has only been possible through a 16.4 % drop in the number of holdings (EU-15, 2000 to 2007) and a drop of 8.8 % between 2003 and 2007 in the numbers of EU-27. This has involved the expansion of those that remain, or an intensification of production, or the development of multiple activities and diversification.

## Farms struggle to maintain their incomes and jobs are lost

With a labour force of 11.7 million (AWU), farm work represents 5.4 % of all EU-27 employment in 2008, notably since the membership of Romania and Bulgaria in 2007. Six countries (Germany, Spain, France, Italy, Poland and Romania) account for 69.7 % of agricultural employment in 2007. But, within this group, one can see very wide disparities, some countries having substantial holdings, others numerous peasant holdings, even subsistence farming.

On average, the agricultural labour force (AWU) has fallen by 11.5 % in the EU-27 between 2003-2007, that is by 1.6 million workers. And this drop was of 10.7 % in the EU-15 between 2000 and 2007, a loss of 681,700 full-time jobs.

## An inceasingly distant prospect of income parity

Finally, the ups and downs of farm incomes happen to the detriment of employment. The past figures for farm incomes show the difficulty that the CAP encounters to find its coherence and balance through its triple ambition, which today aims to reconcile the objectives of competitiveness, sustainable development and territorial cohesion. Thus the initial objectives of the CAP remain unfulfilled, since agricultural markets have become extremely volatile and farm income parity remains out of reach for the moment.

EU has exported an average of € 50 billion per year of processed food products between 2006 and 2008

Source: European Commission - DG Agri

# 16 CAN THE COMMON AGRICULTURAL POLICY EQUIP AGRICULTURE TO COMPETE?



The first aim of the CAP reforms was to make agriculture cost competitive and more effectively oriented towards markets, by lowering prices. But markets and price competitiveness are not the only factors that determine the overall ability of EU agriculture to compete.

The CAP reforms intended to equip food and farming businesses to withstand competition more effectively have concentrated on agricultural prices. Deciding to drop the price of cereals, sugar or dairy products to sell more is stating a political will to enter and have an impact on new export markets. The other reasons are to win market share on the domestic market or to maintain a positive trade balance. Thus falling cereal prices benefitted animal feed manufacturers above all, since they are the biggest European users of cereals. In the same way, when the sugar sector was reformed in 2006, a drop of 36 % was made, helping manufacturers of fizzy soft drinks and desserts. This price competition helped the downstream processing industries and came at the cost of lower producer prices. Producers were compensated for lower earnings by direct subsidies.

## Price competitiveness is an illusion for European agriculture

The costs of agricultural production (labour, land inputs, energy, capital) differ between countries and are influenced by national regulations. So cereals produced in South America are competitive on the world market, thanks to very favourable climate and cheap labour.

Europe has standards and regulations that are more demanding than those in third countries (notably, European standards for health, crop protection, environment and animal welfare), to ensure that a high level of protection can be guaranteed to consumers of European products.

Direct subsidies: a drop in agricultural prices, compensated by a subsidy to the producer concerned might encourage buyers (collectors or processors) to drop their price downstream. This raises the question of how the margins earned from adding value should be shared between members of the supply chain. This is particularly important, given that the new, lower price levels cannot be compensated indefinitely by subsidies from community or national budgets, which are running dry.

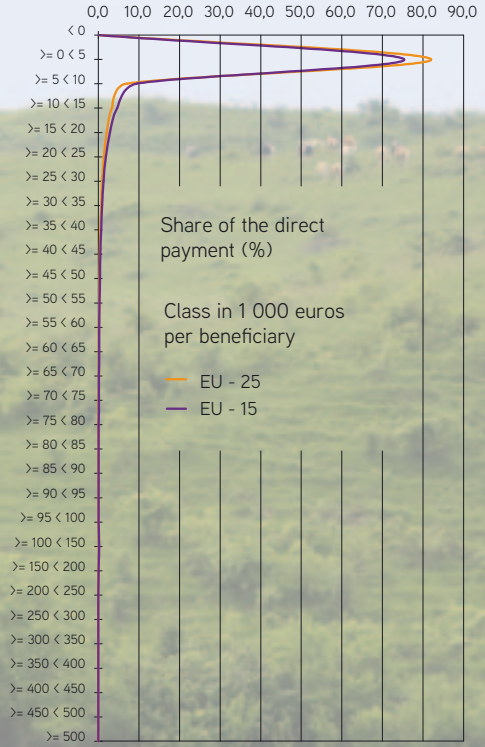
Finally, the sale of European products abroad is subjected to currency fluctuations and a strong euro is a handicap to food exports to third countries.

## Other drivers for competitiveness

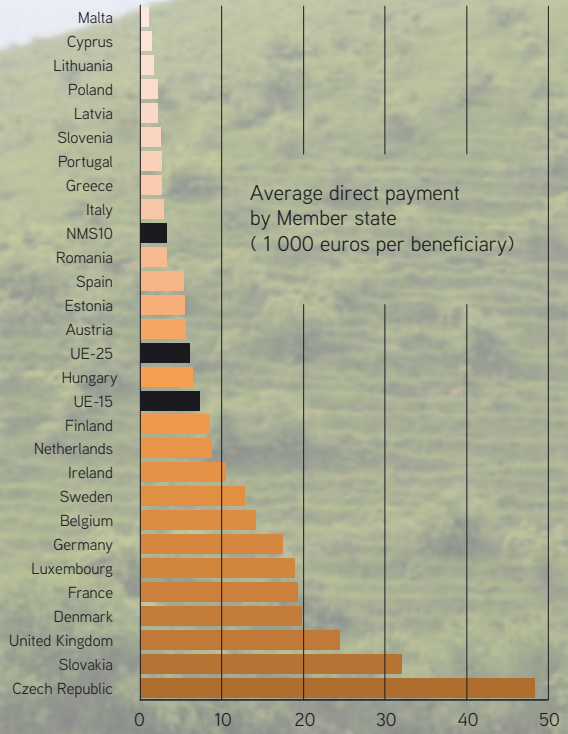
The trump cards that European agriculture holds are the quality and wide diversity of its products, which can make a vital difference on the markets. In that, the CAP has a role to play in improving the situation:

- Raising the efficiency of production: by using fewer resources which are increasingly rare and expensive, vulnerability can be reduced.
- Promoting quality products through quality schemes (eg Label Rouge) and protected origin declarations (eg AOP) allows the added value to be retained at source.
- Developing the potential for regional and local markets to provide outlets for products from family farms and small units.
- Improving the state of natural resources necessary for the production cycle (soil, water, biodiversity), so as to develop economic, agronomic and climatic resilience into agriculture in the long term.

## Less than 20 % of EU-27 farmholdings catch 80 % of subsidies while half receives less than 500 euros




## Large farmholdings very well located in few Member states




Source: DG AGRI calculation based on CATS data © Agence DER - Fotolia.com

# 17 DIRECT SUBSIDY TO AGRICULTURE: DEEPLY INEQUITABLE SHARING

"Tell me what you produced on your farm between 2000 and 2002, and I will tell you the CAP subsidy that you receive today."

The distribution of agricultural subsidies, particularly the first pillar, is very unequal. These inequalities arise essentially from the history of how these support packages were put in place. In 1992, when reform of the CAP brought about lower prices for cereals and beef, direct subsidies were put in place as a compensation for the gap in earnings (full compensation by the 1992 reform and only partial by the 1999 reform) on the basis of the hectares, yields and livestock heads in the 1986-1992 period. No ceiling mechanism was put in place to limit the windfall effects that might occur. The 2003 reform set these inequalities in stone by basing the support paid to each farm as a function of the area and livestock heads in 2000-2001-2002 (Single Payment rights). As these reference years fade into the past, the differences in support between holdings became more and more difficult to justify. This subsidy henceforth became an earnings support and no longer a compensation for lower prices, even though they were originally calculated on the basis of farmers' incomes.

## The uneven distribution of direct subsidy is apparent at several levels

Between European countries: 91.3% of the first pillar payments (€37.6 billion ) have benefitted the EU-15 in 2008, of which 21.5% (€8.1 billion) has gone to France. Taking the second pillar into account, the EU-15 share of the total CAP budget was 82.8 %, of which France received 17.3%. The new member states which joined in 2004 and 2007 have been treated very differently. The farmers in these countries, being unable to present past production figures, are receiving progressively from 25 % to 100 % of the unit payments (per ton of cereals, heads of livestock and ton of milk) received by farmers in the west until 2013, but they have much lower cereals and milk yields.

Between regions: bearing in mind their specialisation, major arable regions (eg the Paris basin, East Anglia) receive more than regions known for pastureland or horticulture. This draws a rather stark geographical picture of CAP payments.

Between production systems: since 1992, the major arable crops (cereals, oilseeds, beet...) and beef livestock sectors have received the most funding. The greater the number of cattle raised, the more payments were provided. Inversely, certain sectors such as fruits and vegetables, vineyards, pigs or grass-fed milking cows have received very little support. The difference in feed regime explains why two dairy farms of the same size can receive widely differing payments, one receiving four times as much as the other;

Between farmers: a minority of farmers – about 20 % – receive the largest share – about 80 % – of direct subsidy and more than half Europe's farmers receive total payments of less than €500. The very high sums received by the big farms (23,500 European holdings received more than €100,000 in 2008) leave the CAP exposed to criticism in that they are socially unacceptable. This criticism has gained momentum in the context of a greater transparency in European politics.

With the 2003 reform, certain countries like Germany, the UK or Denmark chose to reduce the gaps between regions and have tried to bring a little more legitimacy to payments schemes which are increasingly contested. The CAP health check of 2008, too, has opened additional possiblities of casing these inequalities, which France has done by redistributing a part of its arable subsidy to grass-fed livestock.

Renewal of generations in agriculture assumes to offer types of viable, transferable, replicable and ecologically sound farming, as well as requiring reasonable financial investment

Photo: © RAD

# 18 GETTING STARTED IN AGRICULTURE



Barely 8 % of farmers in the 27 countries of the European Union are under 35 and one in four is over 65*. These figures alone show the scale of the generation challenge for the future of European agriculture.

The average size of farms held by young farmers is 16 hectares in 2007. Poland and Austria have the most young farmers under 35, with 15 % and 11 % respectively. On the other hand, Portugal and Slovakia are experiencing ageing in the farming population, such that less than 4 % of farms are held by young farmers.

## Help for young farmers to get started varies from country to country

Setting up farmers is intended to help the process of renewing the generations of farmers. Many farmers do not have a family member to take over when they retire: one of many reasons for this is the difficulty and relative unattractiveness of the work. The scheme consists of supporting young farmers in their first farm, whether they take on an existing holding or create a new structure.

The farmer must be under 40 to qualify for these packages, which are of two types:

* Source: CEJA

- a sum of capital paid after checking the setting up has taken place, on average €20,000 – but this can vary between €10,000 in Germany and €40,000 in Portugal;
- Low interest loans to cover buying out the capital in the holding and to carry out some of the necessary investments to get the project started.

At present, just 3 % of EU spending on rural development goes to help with the setting up of young farmers, out of a total of €2.8 billion spent between 2007 and 2013.

## Make the occupation more attractive to attract a fresh generation of farmers

Access to farming or to setting up support remains linked to a measure of economic success. At present, the uncertainty of markets in the future and the volatility of prices is not encouraging young people to take up agriculture for a living, since the target of stabilising the farming income is not guaranteed by the CAP. The renewal of generations in the agricultural workforce requires resources for research, development, agricultural training and advice so as to propose viable forms of agriculture, which can be passed on and which respect the environment. To be accessible, this necessitates raising realistic capital sums and finding sufficient affordable land.

## A new route to get young farmers started

Paradoxically, a number setting up patterns encourage large scale operations and very high levels of capitalisation, which does not help to create jobs. Access to farmland, for example, remains the weak link in the setting up chain. It is not within the scope of the CAP, but is a driving force of the market or national policies when they exist. Finally, access to the land is made difficult by competition for other uses of agricultural land, which is intensifying everywhere. To meet the challenge, local authorities and civil organisations propose contractual schemes which help to set up new farmers more easily: these win-win agreements can include forward purchasing of production, agricultural land groups, agro-tourism...).

# Key figures of milk production in EU-27, 2007




Source: European Commission - DG Agri / © sonia chatelain - Fotolia.com

# 19 ARE MILK QUOTAS EFFECTIVE?



Set up in 1984 to reduce the bulk of butter and milk powder, milk quotas made it possible to rapidly adjust the supply to the demand. Meanwhile, their management having been variable from one member state to another, the impact of milk quotas on EU farms is varied.

Milk quotas have played an effective role in managing the amount of milk reaching the market. They have allowed the market to be regulated in a way that is not too burdensome. The cost of organising the common market in milk and dairy products has passed from 20 % in 1984 to 6 % of the total budget for the CAP in 2008. Dairy quotas have allowed milk producers to benefit from reasonably stable and foreseeable prices. This is a situation which has been satisfactory for the other players downstream (milk collectors, processors, retailers, consumers)*.

## Management rules which vary from country to country

In France, for example, dairy quotas have been used to ensure a balanced territorial distribution of production (for example controlling volumes of milk in every département; specific measures in favour of mountain areas). They have been managed to help a certain kind of family farms which freely hold quotas rights. This has allowed milk production to be maintained on a large number of territories and avoid an over-concentration in the most favourable dairying areas. Thus milk quotas have been a territorial management tool. Denmark, the Netherlands or the UK allowed dairy producers to trade quotas and establish a market for quotas allocations. In these countries, dairy holdings are less numerous and more intensive. Thus, for example, an average Danish dairy unit produces more than one million litres of milk a year while the French average is 300,000 litres.

## Why will milk quotas be abolished in 2015?

Opinions are divided as to whether the dairy sector should be price competitive on the export market or whether dairy farm incomes should be maintained. Some believe that milk quotas have held the sector back from restructuring to become more price competitive, benefitting the high output farms, while quotas have allowed less intensive farms to keep going and have made the cost of setting up a dairy unit more expensive in the case of paid-for quota. By limiting EU production, milk quotas have helped milk producers in New Zealand, by allowing them to sell a quarter of world's milk production and a third of the world milk trade. In reality, quotas remained a tool for managing production as well as ensuring a viable income for producers. They also helped to maintain dairying in Less Favoured Areas, such as mountainous regions, since a minority of member states remain attached to the idea of keeping production in certain areas. But these quotas have been fixed at 10 % over the needs of the internal market, a volume which the EU subsequently had to export at dumping prices. While export refunds have gone down considerably, they have been widely replaced by dairy subsidies since 2004, not forgetting the subsidies allocated to animal feedstuffs.

In the end, it was less a case of the WTO pushing for the suppression of dairy quotas by 2015, than an alignment with the world market (notably with South East Asia) that was wanted by a majority of EU states. In fact, the EU is incapable of competing directly with Oceania, which generated 37 % of the world's dairy product exports in 2008 (split 28 % New Zealand; 9 % Australia, mainly to South East Asian countries) against 31 % for the EU.

*European Court of Auditors, 2009.

# Quality agricultural products schemes




PDO covers agricultural products and foodstuffs which are produced, processed and prepared in a given geographical area using recognised know-how.


PGI covers agricultural products and foodstuffs closely linked to the geographical area. At least one of the stages of production, processing or preparation takes place in the area.


TSG highlights traditional character, either in the composition or means of production

Organic garantee a type of farming based on prohibition of chemical synthetic pesticides and GMO's and that takes advantage of wide crop rotation and on-site resources, such as livestock manure for fertiliser or feed produced on the farm.

# 20 PRODUCT QUALITY AS A MOTOR TO DRIVE DIVERSITY IN FARMING



Top quality European food products constitute a cultural and gastronomic heritage that is recognised throughout the world and form a key element in the economic and social life of many European regions.

Consumers attach a growing importance to both food security and the origins as well as the production methods used for their food.

## European quality certification already exists...

Within the framework of the CAP and through the Green Book on product quality, the European Commission has integrated this demand for quality by putting in place EU-wide certification systems covering the quality and provenance of products: Protected Designation of Origin (PDO); Protected Geographical Indication (PGI); Traditional Speciality Guaranteed (TSG) and finally organic farming. Due to the extended nature of food supply chains and the large number of actors in the food industry, consumers see certification systems as a guarantee of better quality.

The CAP allocates a budget of € 550 million to its food quality schemes, that is 1% of the total CAP budget, through the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD), 2008.

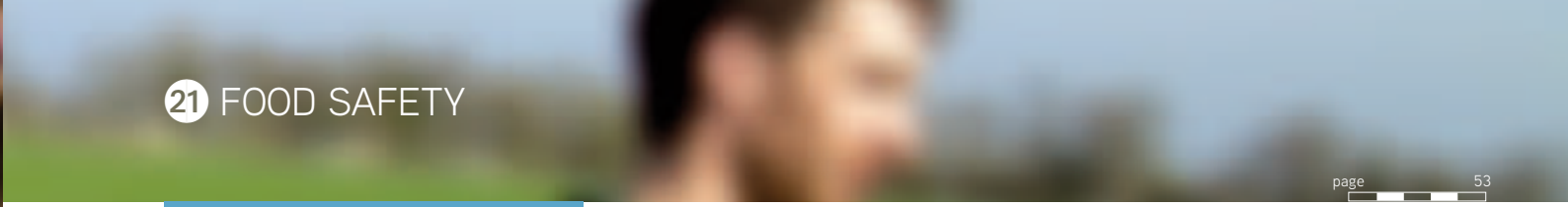
Quality becomes a key selling point for food producers. The value it adds brings with it significant additional competitive advantages for European producers who fulfill demands for quality, the environment, animal welfare and health. Nevertheless, this aspect of producers competing on quality criteria and the added value in rural areas is conditional on the protection of geographical zones in international registers as well as within the World Trade Organisation (WTO).

## ...and must increasingly address environmental issues

Any policy governing quality can not be split off from the CAP nor can it stand apart from the new challenges that are posed by climate change, preserving biodiversity, supplying energy, animal welfare and managing water in agriculture. Numerous traditional production zones and terroirs are directly threatened by global warming or by increasingly scarce water supplies, as are vineyards, forestry and cereal production. To maintain biodiversity, the threat to populations of certain plant and animal species are menacing the genetic heritage which is at the origin of our food chain. Current technical manuals do not fully take into account the combined effects of these challenges: they define demands or criteria appertaining to a small part of agricultural practice or a part of the production chain for the product concerned.

A technical manual covering the entire production system or the entire production process would give a better reading of a product's true quality. In the same way the characteristics of where a product is made are not applied to all the stages of production. Integrating measurements of progress in the technical manuals would foster a growing awareness of environmental and land issues so that it would be possible to start a tendency to raise standards from the bottom upwards in production and processing systems.

The health of animals, humanity and the environment are all intrinsically linked to our patterns of agriculture and food production



# 21 FOOD SAFETY



The price and quality of food are the two highest priorities of agriculture for EU citizens. After affordable prices, a supply of safe and wholesome food is the second of their preoccupations. But behind the term quality are three basic essentials: bacteriological standards, analytical chemical quality as well as the quality of taste and texture.

The successive crises of BSE ('mad cow disease'); hormones in beef; dioxin-contaminated chicken; Chinese milk with melamine; the occupational illnesses linked to the use of agricultural chemicals... all these phenomena show that food is a major issue in public health.

Monitoring for warning signs of animal epidemics (animal health checks, foot and mouth disease, bird flu...), as well as checking plants for pesticide residues, the presence of genetically modified genes and toxic contamination above EU standards all helps to structure the food safety chain in member states. This approach is built in from production to consumption and is referred to as 'from farm to plate'. It is standardised with veterinary and phytosanitary checks in the farming and food industry production chains and import checks. The principle of traceability, which guarantees the origins of food is the rule for labelling processed foods.

Having reliable and healthy food meets the strongest qualitative demands of EU citizens. To anticipate and prevent food crises, it is also important to cultivate trust between citizens and their food, thus requiring confidence in both farmers and the food industry.

## New issues in food safety: animals and humanity

In plant production, the introduction of genetically modified (GM) crops in open fields continues to be rejected by consumers. The co-existence of GM and non-GM production chains has limits. In fact the so-called "fortuitous" cross-contamination of non-GM crops is as inevitable as cross-pollination among certain species. In many ways, GM crops are an attempt to escape from chemicals, revealing an impasse in productivist ways of working. The health of animals, humanity and the environment are all intrinsically linked to our patterns of agriculture and food production. The very existence of links between the environment, health and pesticides is a reason to plead for a change from simply registering phytosanitary products, which often receive a green light to be sold as an administrative formality that does not meet the requirements of European directives. Farmers need to drastically reduce their use of chemicals, if only for their own health. A return to an agronomy that makes the least possible use of chemicals is essential, simply to let life in the soils recover. This is also necessary to regain the confidence of consumers: it is a matter of urgency to return to food and agriculture that respects natural balance and natural health.

**Pesticides are the backbone of large-scale conventional crops**

# 22 DOES THE COMMON AGRICULTURAL POLICY HELP ENVIRONMENTALLY FRIENDLY FARMING?



The intensification of European agriculture, in part guided by the CAP, has been achieved at the price of serious environmental damage. The reforms undertaken since 1992 have made room for environmental awareness. But the programmes in place to develop more sustainable agriculture remain inadequate and non attractive.

## A poor environmental track record for the CAP

Farmers manage half the land surface in the EU. Their practices have an impact on the soil, the water and the biodiversity of Europe. Whether through the system of guaranteed prices or direct subsidy, the CAP has fostered specialised production systems, which are concentrated and intensive and being increasingly isolated from the wider ecosphere. As a result, we have seen:

- A decline in permanent pasture acreages
- A shortening in crop rotations, with fewer species under cultivation
- An increasing proportion of cereals both in European crops rotation and animal feed
- A growing dependence on pesticides in production systems
- A concentration of productions around processing sites

## Institutionalised subsidies which do not lead to sustainability

As a direct result of the subsidies given under the CAP, European agriculture has evolved in the direction of maximised productivity combined with heavy dependency on inputs such as fertilisers, pesticides and energy. The remaining direct payments are linked to historic reference prices that are increasingly distant from current practices.

In addition, the way in which public support of research and development has been directed, combined with the modus operandi of farmers and food industry professionals have done nothing to slow down these unsustainable patterns. The strengthening of the CAP second pillar policy measures in favour of certain forms of agriculture which are vital for environmental improvement remains a possibility, but to do so requires a coherent overview of all aspects of the CAP's provisions.

## Is the CAP a help or a hindrance for the EU's environmental objectives?

Like the European Union's other sectorial policies, the CAP must integrate the EU's environmental commitments. Among these, water and biodiversity have been covered by directives for many years now. Thus the 2015 target for water quality was set in the Water Directive. In the same way, the political will expressed in 2001 to stop the decline in biodiversity by 2010 has not been fulfilled, even with the support of the Natura 2000 network.

Inertia within the CAP is not the only source for these setbacks. However, the agricultural sector brings together a bundle of opportunities which could be an integral part of the solution. Over and above partial improvements, the future CAP will have to integrate the needs of the environment better to support sustainable agriculture.

# Good agricultural and environmental conditions to respect



| Issue | | Compulsory standards | optional standards |
|---|---|---|---|
| **Soil erosion:** | Protect soils through appropriate measures | Minimum soil cover | Retain terraces |
| | | Minimum land management reflecting site-specific conditions | |
| **Soil organic matter:** | Maintain soil organic matter levels through appropriate measures | Arable stubble management | Standards for crop rotations |
| **Soil structure:** | Maintain soil structure through appropriate measures | | Appropriate machinery use |
| **Minimum level of maintenance:** | Ensure a minimum level of maintenance and avoid the deterioration of habitats | Retention of landscape features, including, where appropriate, hedges, ponds, ditches trees in line, in group or isolated and field margins | Minimum livestock stocking rates or/and appropriate regimes |
| | | Avoiding the encroachment of unwanted vegetation on agricultural land | Establishment and/or retention of habitats |
| | | | Prohibition of the grubbing up of olive trees |
| | | Protection of permanent pasture | Maintenance of olive groves and vines in good vegetative condition |
| **Protection and management of water:** | Protect water against pollution and run-off, and manage the use of water | Establishment of buffer strips along water courses | |
| | | Where use of water for irrigation is subject to authorisation, compliance with authorisation procedures | |

Source: European Commission - DG Agri / Photo: © lofik - Fotolia.com

# 23 IS CROSS COMPLIANCE EFFECTIVE?



Cross compliance is an instrument to integrate environmental elements into the CAP. It aims to make direct payments conditional on compliance with basic standards and good agricultural and environmental conditions.

Cross compliance was applied after the 2003 CAP reform. It applies to any EU farmer who receives payments under the first and second pillars of the CAP. The principle is applied as follows: failing to comply with the requirements leads to a reduction of part of the subsidy paid under the CAP. Cross compliance sets the threshold requirements below which farmers are required to improve their cultivation techniques and management of the farm environment, on the basis of 'the polluter pays' principle.

## A principle that imposes a standard structure...

Cross compliance implies the observance of:

- The Statutory Management Requirements (SMR), which comprise 19 European directives and sets of regulations in the areas of the environment, food security, animal and plant health. The SRM are founded on existing regulatory requirements, such as the Nitrates directive, the Habitats directive, the Birds directive among others.
- Good agricultural and environmental conditions (GAEC), which covers a group of standards (some required and some optional), concerning soil protection, including the maintenance of their organic matter and their structure; the management of water and measures intended to prevent the deterioration of habitats. Their implementation is the subject of negotiations between administrations, farming and environmental organisations in every country.

## ...which is implemented unevenly by member states

Very often, the administrative constraints weigh more heavily on farmers than the new agronomic standards. Farmers must respect 19 directives and rulings that they consider to be too numerous and complex (see opposite). If the buffer zones along a water course constitute the biggest advance of cross-compliance, this kind of 'good agricultural practice' remains a minimal requirement that does not raise questions about such issues as the inputs or the modes of production. What is more, while this type of measure is obligatory in some member states as part of cross-compliance, it is counted as an enhancement of agro-environmental measures – and is therefore the object of direct payments in other member states. So there is a lack of harmonisation between member states.

## Checks and sanctions are not dissuasive

To be effective, cross-compliance presupposes that checks will be made on site, as well as sanctions applied in proportion to how deliberate the infraction is judged to be. At present, checks are made on less than 5 % of holdings on average and the sanctions are very mild for the most part. In some cases, the infringement costs less than bringing standards up to scratch... Cross-compliance is an indispensable instrument, but is still inadequate as a way of integrating the needs of the environment into the CAP.

Between 2007 and 2013, agri-environmental and Natura 2000 payments have accounted 23 % of Pillar 2 expenditures and 5 % of total CAP budget

# 24 AGRI-ENVIRONMENTAL MEASURES (AEM): THEIR RANGE AND LIMITS

This generic term covers the voluntary contractual measures for farm holdings. They constitute the implementation of the Nitrates Directive, the Habitats directive and Natura 2000.

Agri-Environmental Measures (AEMs) were started in Europe at the beginning of the 1990s, following a rapid deterioration in wetlands and chalk uplands in the wake of extensive background agricultural pollution (eg excessive use of chemical fertilisers, due to bad practices). It became necessary to protect certain zones in their primordial state to preserve biodiversity and to act as natural water filters for wetlands. These measures were implemented with consultation between the farming community and conservationists, taking into account the needs of these environments, but also their many and diverse users – farmers of course, but also hunters, fishermen, conservation groups and walkers.

## An approach based on the exception and not the rule

Technical manuals have been set up, laying out restrictions to minimise the impact of farm holdings on the surrounding environments. For instance, these put ceilings on fertilisers, bans on chemical crop treatments or set dates for environmentally disruptive work, such as grass cutting or brush cutting, as well as setting up protected zones around bird nesting sites. If certain measures have allowed some environmentally beneficial practices to help the environment or biodiversity (extensive livestock, organic farming, the introduction of endangered species and varieties) others made it possible to reduce the negative impacts. In so doing, the yields per hectare and for the year have dropped noticeably, while limiting the load on the land by reducing inputs. This led agricultural administrators to calculate a drop in farm incomes based on the reduced yields, rather than attaching a value to the preservation of the public good, in the form of water, biodiversity, landscape and suchlike.

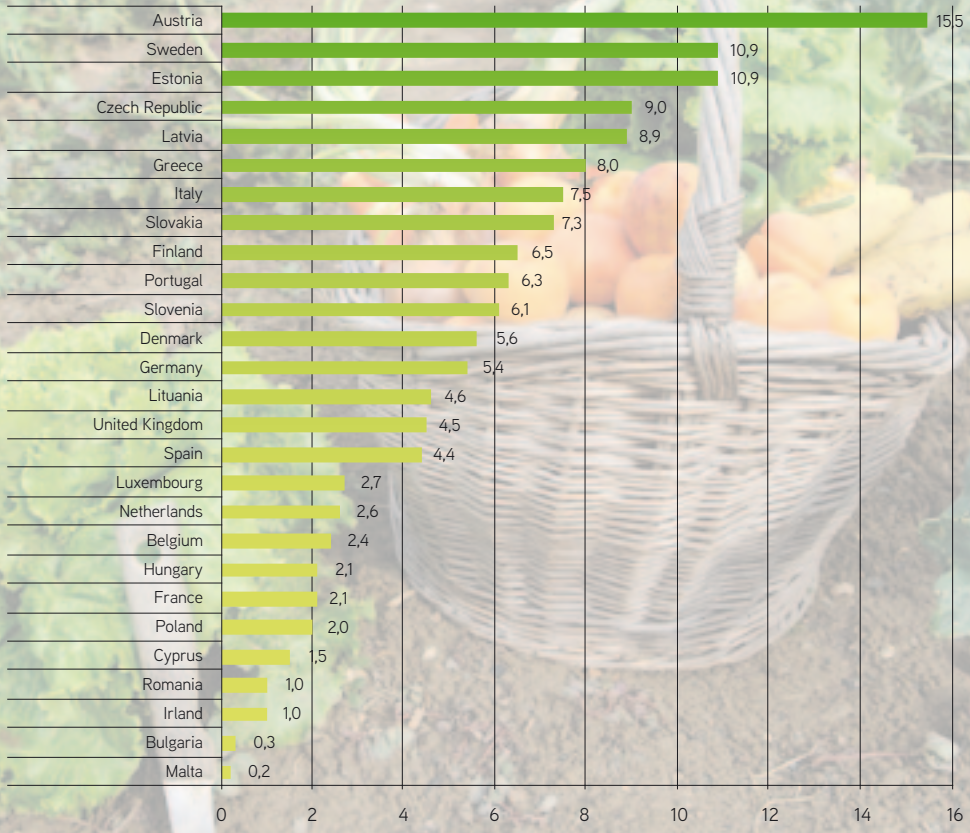
The calculations used were simplistic but efficient and quick: the same methods are still in use today, retaining this image of the 'poor relation' for AEMs, which do not produce but rather require spending money so as to produce less.

## Contracts co-financed by member states and regions

Other experiments in Bad Wurtemberg or in Austria offered farmers the opportunity to earn additional increments for good environmental practices. So as to strengthen the AEMs linkage to economic, social and territorial aspects, certain states offered contracts for multifunctional and sustainable agriculture. This was the case in France between 1999 and 2002 with its territorial contracts (Contrats Territoriaux d'Exploitation), as well as in other countries, including Scotland and Austria. Farmers sign up for AEMs on the basis of a renewable five-year contract, for which the technical manuals are almost identical to those issued in the 1990s. The total paid is based on a "loss in earnings" and on the sums available for AEMs from the EU and member states. Thus, for the period 2007-2013, AEM payments and Natura 2000 represent 23 % of the second pillar of the CAP and 5 % of the total CAP budget*. To pay for AEMs requires funding from the EU and the other half is to be funded by national or regional government. This weak funding limits access to AEMS. For this reason, they are reserved for priority zones or to help holdings already engaged in agri-environmental work.

*RD report 2009, DG Agri ; DG Budget

## Share of the organic area in the EU-27, 2008 (%)




Source: European Commission - DG Agri / Eurostat © thieury - Fotolia.com

There is a growing demand for organic farming and organic products among European consumers. The CAP supports its development in the quality of products and the conversion of holdings, even if national policies still tend to prevail.

From 1994 onwards, the CAP integrated organic agriculture into agro-environmental measures (AEMs), by allowing a subsidy to be attributed for areas in conversion to organic production or already in organic production. It should be noted that the countries which implemented this option from 1994 onwards and applied in the widest possible way (subsidy for conversion + perennial subsidy, referred to as "maintenance") are those where organic agriculture is the most advanced today: Italy, Austria, Sweden. What is more, the European Union's adoption of a ruling on organic crop production in 1991 and for organic animal production in 1999 put in place a common and harmonised framework, which made it easier to organise intra-European markets.

## A European mechanism with local variants

Until now, the main CAP support for organic agriculture resides in the AEMs (second pillar); aid for conversion and the aid for maintaining land to organic requirements. These measures are subject to subsidiarity and allow a large measure of national adaptation. France has helped with conversion from 1994 onwards, but with a limited budget: its increase in 1998-9 has allowed French organic production to take off. On the other hand, maintenance subsidy was not introduced until 2007. The sums paid per hectare are the same across the whole country, but the ceiling for each holding could be increased here and there by the regions. Other countries, such as Italy or Germany, applied both a subsidy for conversion and a subsidy for maintainance from 1994 onwards. The sums involved were large, but varied from region to region. Some countries, like Austria or Poland, made organic AEMs "priority measures".

By applying article 68 of the CAP ruling, France is going to move organic support on to the first pillar in 2010 and 2011. For the first time it will become structural subsidy, bringing with it the problem of number of accumulated subsidies or totals that can be applied. Where previously it was possible to juggle subsidy between different pillars, it will no longer be possible to accumulate AEMs.

## Other mechanisms

Organic agriculture can benefit from several parts of the second pillar. This is the case with measures such as 111 (demonstration and training); 121 (investment in products linked to products of quality); 132 (subsidy for certification); 133 (promotion); the list is extensive. In any case, in most countries these subsidies are not explicitly attached to organic production and are very inaccessible to farmers or organic groups.

## But there are negative effects, too

Certain CAP mechanisms work against organic agriculture. The way 'historic references' are calculated for single payments penalises virtuous systems with low yields. Organic can also suffer on account of lower financial incentives than those to promote extensive livestock (in France) or quality marks (in Italy), even though more exacting demands are made. Finally, the administrative rules on the maintainance of permanent pastures are also ill-suited to the longer crop rotations required for organic production than conventional agriculture.

**57 % of the total agricultural area used in the EU-27 are ranked in Less Favoured Areas**



Photo: © wildman - Fotolia.com

# 26 SUPPORT FOR LESS FAVOURED AREAS



Since 1975, the CAP has given support to agricultural holdings in Less Favoured Areas (LFAs). This allows, in certain regions, to maintain agricultural activity despite "natural handicaps" such as poor climate, steep slopes or poor soil quality.

These handicaps can, depending on the circumstances, lead to a serious risk of agricultural land being abandoned; they can lead to a lessening of biodiversity; to desertification; to forest fires and the loss of high natural value (HNV) agricultural spaces.

Some 57 % of the total agricultural areas used in the European Union are classified as LFAs. There are three types of LFA:

- The mountain LFAs (17 %) are defined as being handicapped by a short vegetation period (due to altitude), as well as by steep slopes. The regions of Finland and Sweden situated to the north of the 62nd parallel are assimilated into mountain areas.
- The intermediate LFAs (31 %) suffer from poor land productivity, from production which is less than the average because of the poor land quality in the natural environment, as well as from the fact that the agricultural population is in decline.
- The LFAs with specific handicaps (9 %) are areas in which it is necessary to maintain agricultural activity to conserve or improve the environment, maintain the natural space, or preserve the potential for tourism, or protect coastal zones and wetlands.

Compensatory payments for natural handicap

In 2005, across the whole of the EU-25, 13 % of all farms, with a total of 1.4 million beneficiaries, received funding from one of the support programmes for LFAs. Compensation for natural handicap paid to farmers represent 14 % of the EU spending on rural development between 2007 and 2013, that is €12.6 billion. Subsidy to LFAs is paid annually and ranges between €25 and €200 per hectare of agricultural land used. In certain member states (notably in France), farmers in LFAs can qualify for low-interest loans or grants to get started.

## Towards a revision of the intermediate LFAs

Poor targeting of payments in intermediate LFAs was noted by the European Court of Auditors in 2003. The court also criticised the zoning founded on old socio-economic criteria, as well as very varied national criteria, which could not be compared at a European level. In 2009, the European Commission submitted new "biophysical" criteria to the member states with a view to revising the control mechanism in 2014. Among the new criteria, the fact that a holding might be situated in a zone of high natural value (biodiversity, situation, countryside, water, buffer zones, ecological corridors...) would now qualify for support. This revision implies a financial transfer from the EU to the new LFAs in central Europe, to the detriment of the current LFAs in western Europe.

The Rural development policy provides a framework for dialogue between local stakeholders, associations and farmers

Source: European Commission - DG Agri

# 27 DOES THE CAP SUPPORT RURAL DEVELOPMENT OTHER THAN AGRICULTURE?



Of particular benefit to farmers, the second pillar of the CAP is an agri-territorial policy rather than a rural development one. In many countries, agriculture is no longer the focal point of rural development. The second pillar of the CAP is known as the rural development pillar, but it constantly tries to target the rural economy and not just agriculture.

Integrated rural development should reconcile agricultural objectives and those of territorial cohesion. In this sense, agriculture is part of rural development. Here, rural development is discussed and implemented on the ground by local participants.

Since 1991, the European Union has put in place a support mechanism for rural development projects. Called LEADER (Lien Entre Actions de l'Économie Rurale, meaning a link between rural economy initiatives) the EU programme is based on a decentralised partnership, which entrusts local participants in a territory with the job of leading rural development projects. This method is called bottom-up or "ascendante", since the projects are not handed down from the administrative capitals but they "arise" from the grassroots. This approach is fundamental, since the gaps between the countryside and decision making centres are numerous.

## An integrated approach to projects

Thus over 1,000 rural areas have organised themselves into Local Action Groups (LAGs), which involve 30% of the European Union's rural population. LEADER programmes are favourable to the establishment of exchange networks to share good practice and the experience of sustainable local development. The method makes it easy to create spaces for dialogue, retaining the principles of citizenship and territorial cohesion. However, the successes of the LEADER method goes unheard in the territories concerned. In fact, only 6% of the EAFRD budget has been allocated to these country programmes between 2007 and 2013, while 13% goes on programmes to diversify the economy (EAFRD third axis).

Unlike the first pillar of the CAP, rural development at a local level is about projects. It takes time to put together projects and negotiate with the authorities, as well arranging funding to co-finance them, not to mention people to co-ordinate them. Rural development adds value to the territory, through employment and local resources.

## Does rural development go outside the scope of the CAP?

Should rural development not have its place in a cohesion policy or regional policies? The question is still unanswered as town and country continue to increasingly blend into each other. But if this were to be the case, the regional policies would not target the countryside any better, since large towns have a much larger pulling power. At the moment, the challenge is to put together the different sectorial policies, which has to presuppose a dialogue between those concerned. Rural development policy therefore forms a privileged framework within which non-statutory groupings, territorial participants and farmers can meet and enter into dialogue.

**Bag of EU skimmed milk powder in Burkina Faso**


Photo: © abcburkina.net

To shift growing volumes of surplus production in the 1970s, the European Community developed its exports, thanks to massive subsidies. In a few years, Europe thus became the second exporter of farm goods in the world.

## From self sufficiency to selling off surpluses on the world market...

The strong growth of subsidies to export farm goods sparked numerous criticisms, both from the traditional exporting countries and the importing countries. These subsidies contributed in fact to a drop in the international market prices and allowed Europe to take market share by dumping. But above all, it was competing with below-cost European farm products that were exported, notably to markets in the developing world. Thus, between 1980 and 1990, Europe shifted its stockpiles of beef to countries such as Ivory Coast, Ghana or Benin, thanks to subsidies. Competing with prices that were often below the cost of production (dumping) choked off local production and trade between African countries. It also cancelled out the development efforts of livestock farming funded by subsidy from the European Union.

## ...despite a drop in export subsidies

Successive CAP reforms reduced export subsidies. In 2008, the European Union only spent €650 million, that is 1.4 % of its spending on the market intervention and for direct subsidies under the first pillar, compared to more than €10 billion in the 1980s. However the farm product exports continue and European products are still competing on the markets of developing countries. The raising of direct subsidy to producers has allowed export subsidies to be reduced, while retaining the price competivity of European exports. Dumping is still current. Europe is also exporting down grade products which are unsaleable on the domestic market (potatoes and onions, for instance) and by-products from the food industry (poultry wings or rumps and culled hens). These products have no real value, so they are shifted at very low prices and destroy the food industries in developing countries.

## Protection is necessary for Third World agricultures

If Europe remains the principal supplier of farm products to many developing countries, it is not the only source of price competition for African production. Thus Brazilian poultry has gradually replaced European poultry on African markets, due to its very low production costs. Over and above the battle against dumping imported products, this situation calls for strong protection for agriculture in countries, many of which have heavily reduced their customs duty rates.

## Balance of trade in agricultural products (Mio euros) : the EU deficit widens

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cereals | 2453 | 2888 | 2024 | 1209 | 1668 | 754 | 1490 | 1611 | -133 | 2104 |
| Sugar | -50 | -335 | -424 | -201 | -288 | -529 | -10 | 469 | -858 | -986 |
| Animal feed | -6067 | -7550 | -10161 | -10291 | -9337 | -10806 | -8445 | -8015 | -11785 | -13915 |
| Fruits & vegetables | -3938 | -3797 | -4479 | -4469 | -4779 | -5301 | -6399 | -6215 | -6720 | -6070 |
| Veg fats & oils | 12 | -192 | -179 | -502 | -483 | -618 | -1099 | -1920 | -2262 | -2905 |
| Milk & dairy products* | 3047 | 3662 | 4005 | 3763 | 3710 | 3917 | 4091 | 4078 | 4781 | 5212 |
| Wine | 2452 | 2379 | 1915 | 2230 | 2293 | 1996 | 2322 | 3093 | 3305 | 3777 |
| Beef meat | 154 | -142 | -158 | -282 | -484 | -741 | -963 | -1241 | -1388 | -877 |
| Pork meat | 2221 | 2624 | 2340 | 2180 | 2061 | 2481 | 2393 | 2689 | 2732 | 3470 |
| Sheep & goal meat | -615 | -718 | -820 | -883 | -859 | -890 | -1021 | -964 | -944 | -964 |
| Poultry meat | -529 | -466 | -350 | -459 | 51 | -56 | -318 | -358 | -319 | -401 |

* Milk & milk products, cheese and curd, butter & butter fats

Source: http://ec.europa.eu/agriculture/agrista/tradestats/2008/index_sta.htm#partb1 © Photo: Soy coalition

# 29 THE IMPACT OF EU IMPORTS ON DEVELOPING COUNTRIES



Today, Europe is the world's largest importer of agricultural products. In 2007, these imports were worth 78 billion euros, or 23.1 % of world agricultural imports that year. Europe imports the bulk of its proteins for animal feed.

## A traditional outlet for developing countries...

Most of the products imported by the EU come from developing countries. Some of these trading relationships are historic, but there are also trading agreements such as Cottonou, Euro-Mediterranean agreements, an on-going negociated agreement with Mercosur, making Europe the traditional outlet for agricultural products from these countries. Thus in 2007, countries in Africa, the Caribbean, the Pacific (ACP) shipped 59.2 % of their agricultural exports to the European market, Mediterranean countries 51.9 %, Mercosur 33.5 %, South East Asia (ASEAN) states 20.1% and less developed countries (LDC) 37.3 %.

## ...which is not without risk

For developing countries, this strong dependency on the European market for their agricultural exports can be awkward in a number of ways. Thus, the advantages afforded by Europe means that there has been no incentive to diversify their trade on markets which are sometimes more profitable. The ACP countries, for instance, which have had free access for years to the European market for the bulk of its agricultural output, now find themselves facing competition from countries that once faced tariff barriers but now enjoy free market access too. Over and above this dependency for an outlet, many developing countries have concentrated on a number of products that correspond to European demand. International price fluctuations are damaging the over-specialised economies of these countries. What is more, processed or added value agricultural products face customs duties apart from developing countries and ACP countries which have signed up to Economic Partnership Agreements (EPAs). The Third World is essentially exporting commodities or products with minimal added value. They have not had the opportunity to develop either their own processing nor their food industry.

## Negative impact on developing countries

Monoculture cropping of products destined for the European market can also harm agriculture in the developing world. This is the case with soya and palm oil, of which Europe is a major importer. The rise of oilseed monocultures has been developed extensively in South America and South East Asia, with serious human, environmental and health consequences. These include deforestation, loss of biodiversity, soil erosion, water pollution, rural and indigenous communities being expelled from their lands to the benefit of large holdings. This race to establish ever larger holdings and the evictions of small producers has generated a massive rural exodus, as peasants arrive to swell the ranks of the urban poor in towns.

## Who is protecting their agriculture in the world?

| Measures | Case study /products | Period applied |
|---|---|---|
| Import ban | Guinea, potatoes | Five months per year between 1992-98 |
| | Nigeria, rice | Growing season 1993 |
| | Guinea, onions | |
| Quantity restriction | Cameroon, chicken | Sept. 2004 to 31 March 2005 |
| Raising customs tariffs, surtaxing | Guinea, onions | 1993 |
| | Kenya, milk | From 2001 |
| | Indonesia, sugar | From 2002 |
| Prie bands and import quotas | Nicaragua, rice | April 1992 to September 1996 |
| Customs duties and charges based on prevailing internal market rates | Europe, beef | From 1967 |
| Value Added Tax (VAT) | Cameroon, chicken | From September 2004 |

Source: Alpha A., The protection of agricultural markets: a development tool) published in Etudes et Analyses, Coordination Sud, 2006./ Photo: © Sascha Burkard - Fotolia.com

"Food sovereignty designates the right of populations, of their states or unions to define their farming and food policy, without dumping from third countries."

When the world food summit met in Rome in November 1996, this is how la Via Campesina defined, for the first time, the principle of food sovereignty.

"Food sovereignty, is not autarky nor withdrawal behind national boundaries: every region in the world has its own specific products that it can sell, but food security is too important to allow it to depend on imports. In every region of the world, the basis of the food supply should be produced locally. Every region should thus have the right to protect itself from low-price imports that would ruin its own production."

## Does the CAP respect food sovereignty?

By 1962 the CAP was implicity based on the principle of food sovereignty. Its targets combine securing its procurement, and raising productivity, the stabilisation of its own markets and a guaranteed price for consumers. In fact, the EU has been progressively far away from the food sovereignty, its own and the rest of the world.

## For all that, the CAP is drifting away from food sovereignty:

- Its own; having accepted from its inception during the GATT agreeements in 1961-62, not to protect animal feed, EU still imports annually 60 million tons (including 40 of soya).
- of the EU's trading partners, particularly the poorest of them, is threatened by the dumping of cheap exports, be they subsidised or not.

## What food sovereignty for developing countries?

Developing countries (DCs) have seen their food sovereignty flouted regularly at international negotiations. The Bretton Woods institutions - where the EU and the USA hold the majority of the votes- obliged DCs to cut down their custom duties while those authorised by the WTO are at a rate well above (bound custom duties). Therefore safeguard measures are not easily available for a large part of DCs.

However, despite the inability of DCs to subsidize their own farmers, an efficient border protection (variable customs duties) is the best way to secure fair farm prices that favour a production rise in order to improve food security, fight against hunger and develop food chains. Just compare dairy policy of Kenya with that of West Africa. Kenyan milk producer's incomes are improved.

Diverse measures can allow poor urban populations to face to price rises for the time it takes for local production to adjust: public interest labour-intensive projects to reabsorb urban unemployment and pay a poor labour force, food stamps for low cost local products... These measures could be funded by the additional customs revenues and by long term loans from World Bank.

# WHAT IS AT STAKE?
# WHAT FORM WILL THE CAP TAKE AFTER 2013?

HOW IS AGRICULTURE RETURNING TO THE POLITICAL AGENDA FOR THE CAP REFORM?
HOW CAN THE CAP JOIN UP NEW ENVIRONMENTAL CHALLENGES WITH ITS ULTIMATE PURPOSE OF PRODUCING FOOD?
WHAT ARE THE NEW STRATEGIC ORIENTATIONS THAT AWAIT THE CAP AFTER 2013?

Buying at the cheapest price on the world market
does nothing to guarrantee the security of food supplies

# 31 AGRICULTURAL LAND AND STRATEGIES FOR FOOD SECURITY



Food is the oldest political problem and this has been so for as long as politics has existed. Throughout history, states have had to look for ways of ensuring the food security of their populations so as to maintain social cohesion and prevent rebellions. In the long term, the growing awareness that natural resources are finite, with the resultant rising prices of energy, as well as climate change constitute important socio-economic risks.

## Europe chose to develop its agriculture to ensure food security

At the end of the 1950s, Europe chose to become self-sufficient for its food supplies by developing its agriculture and its food industry. Today, the aim of EU policy is to ensure the food security of 500 EU citizens. Food security has three aspects: to provide sufficient quantities of food, of a sufficient quality with uninterrupted access for all.

In Europe, as elsewhere in the world, the questions of farming and food are the business of states: it is crucial that this rulers' role should remain intact. Europe has chosen relatively high health and environmental standards to protect the food supply of EU citizens on the basis of its own farming and food industry.

## The new rarities: farming land and other natural resources

In a century marked by climate change, access to land, water and energy are sources of tension. If these tensions constitute a serious threat to food in general, they are also destabilising factors for social stability across entire regions. States are looking for ways of supplying their internal markets with farming and business policies that guarrantees a certain level of food sovereignty. The simple fact is that buying at the cheapest price on the world market does nothing to guarrantee the security of food supplies.

Thus we are seeing new public investment strategies being carried out by both private agricultural funds and national funds, to rent or buy millions of hectares of farmland abroad, where they will produce food crops in the name of their clients' food security or to grow biofuel crops. This phenomenon is now starting to concern parts of eastern Europe. The right of peoples to feed themselves is rapidly becoming the right for some people to feed themselves, while confiscating the land from others, who starve.

## Political leverage to ensure that agriculture is lined up to deliver our food choices

To go looking for more farmland when there is not enough at home, to invest in family agriculture or to invest in farming for export, these are all opportunities, be they strategies for private firms or the political choices of state policies: these examples illustrate the options and tensions associated with food security. In the absence of clearly defined agricultural policy objectives, certain overseas land purchase strategies cannot be sustained without overlooking their economic, social and environmental consequences.

What would be the point of a European agricultural policy if one day thousands of hectares of East Anglia or the Paris basin or Hungarian plains were to be bought or rented by foreign national funds? What would be the political response of the EU to such events?

The European Union has first of all the vocation to ensure its own food self-sufficiency before setting about feeding the world

# 32 BALANCING FOOD SECURITY AND THE ENVIRONMENT



## What kind of agriculture and what kind of food supply do we need on a planetary scale for 2050, if we are to preserve our environmental assets in good working order? How can food security be balanced with a safe future for the environment ?

According to the United Nations Organisation for Agriculture and Food (FAO), it is necessary to raise agricultural output by 70 % between now and 2050 to meet the growth in demand for food.This absolute requirement does not put in question existing production and consumption models. On the other hand, according to other scenarios*, an increase of 28% in world production would feed the planet by 2050, on the basis of an average intake of 3,000 Kcal/day, of which 500 would be of animal origin, while integrating the objectives of sustainable development.

Meanwhile, these projections are subject to three challenges.

### Revisiting how to feed people

The fall of food availability to 3,000 kcal/day/person does not necessarily mean a drop in the quantities ingested if significant efforts can be made to reduce losses before and after crops, both of which have been estimated at 30 % of world food production. A change in food consumption habits towards reducing meat consumption is equally desirable.

### Revisiting the systems of production

A sustainable agriculture uses natural, renewable resources in the best possible way to meet the needs of photosynthesis and fixing nitrogen biologically, so as to produce the maximum biomass per hectare and fix the maximum amount of organic matter in the soil, in the form of humus. In livestock, crop wastes can be recycled as animal feed, while animal droppings can be used for making manure and organically fertilising the soil.

### Improving the governance of agriculture in the world

International food trade should be replaced with a vision of food security rather than being seen as part of liberalising trade. This goes back to the necessity to better co-ordinate international regulations, be they agricultural, trade or environmental, within the core of the United Nations.

The European Union has first of all the vocation to ensure its own food self-sufficiency before setting about feeding the world. The EU should give an example by aiming for a better efficiency in the way plant calories are produced and transformed into animal calories: nearly two thirds of the land cultivated in Europe are used for forage crops to feed animals. This could be achieved by innovative agricultural techniques that use little fossil fuel, earn a living for Europe's peasants, help in the fight against global warming, respects other agricultures and the balances of both ecology and territory. There will be no food security without ensuring that the environment can be 'secured', too.

*source: prospective Agrimonde / www.cirad.fr


As the world's primary agricultural importer and the second exporter, as well as being the largest contributor of public money to development, the EU-27 have a responsibility to jump start a new world Partnership for food

Photo: © Ulrich Jasper

# 33 TOWARDS A NEW GOVERNANCE FOR FOOD AND FARMING



In the spring of 2008, the fragility of the world's food security surfaced in western awareness. Front page media coverage of food riots shocked public opinion. For all that, hunger is not a new phenomenon: it has become visible with its arrival in towns. Three quarters of those who go hungry are peasants!

After years of neglect, agriculture is the centre of attention. Organisations put in place initiatives, sometimes with contradictory doctrines. Governments; bilateral agreements; United Nations agencies such as the FAO, IFAD and the WFP; the World Bank; the IMF; independent foundations and NGOs are all putting in place programmes to fight hunger. Without being anything new, the lack of co-ordination is obvious.

For many years, farmers organizations and NGOs call for changing the rules of trade. Indeed, as a sensitive sector, agriculture was included late in international trade negotiations. This special status of agriculture explains the civil society demand to extract the agriculture talks outside the WTO and to improve global food governance under the auspices of the United Nations.

## Is there lead organisation for the governance of food in the world?

The global Partnership for agriculture and food security has the aim of improving co-ordination between all those concerned with world food security. The co-ordination is as much political as it is scientific and financial. The Committee on World Food Security (CFS) is an organ of the FAO, which has become the higher food governance body at scientific and political levels. All organisations concerned with food security, including the Civil Society Organisations are represented in it. So a structure for world food governance exists: it just remains for it to function, notably by relaying the guidance of a panel of high level experts (the scientific arm of the CFS) which can guide decisions on the basis of a synthesis of global research.

## The role of the European Union

Non-statutory bodies have been recognised as having an important role in the CFS. Its job will be to join up responses to cross-sector problems so as to bring about a greater coherence by linking policies intended to develop food security, protect resources, root out poverty and wage war on climate change. World food governance needs a lead organisation. A modified CSA could play this role. To make it come to life, it is imperative that from now on all its constituent organisations grasp the challenge in both hands, so as to avoid turning the CSA into yet another empty shell in the muddle of international organisations. As the second exporter and first importer of agricultural goods in the world, as well as the largest contributor of public funding to rural development, the EU-27 has the duty to give real political momentum to this new world partnership.

A strategic storage system can ensure food security and avoid speculation on primary materials

Source: European Commission - DG Agri

# 34 THE NEED TO STABILISE FARM INCOMES WITH STABLE, FAIR AND ENCOURAGING PRICES



With a view to stabilising agricultural markets, public intervention and regulations must be reconsidered with the aim of establishing both security of supply and securing farm incomes. This view presupposes that the CAP needs to change course and refocus on satisfying the internal market as a priority.

## Refocussing on the internal market:

The future of European farmers is linked to how well they can respond to the internal market, into which they supplied 84.7% of unprocessed food products between 2006 and 2008, while the food industry supplied 75.1 % of finished food products.

European agriculture should be turned to supplying the needs of the internal market as a priority, as well as producing high added value products. European public authorities should still continue to play a role in limiting market risks, hence in supply management with appropriated instruments that regulate prices while ensuring that farm incomes are more equitable. Farmers do need to be able to earn a fair return for their output with prices that are stable and remunerative, so that they can ensure a base income that covers the average costs of production in the EU, as well as working in Good Agricultural and Environmental Conditions.

## A range of tools to stabilise the markets

Import controls (a tax to compensate for the higher costs of production due to the constraints on production and the European agricultural social model), as well as intervention measures should allow agricultural markets to stabilise prices both for the producers and consumers. Particularly through a storage system aiming at ensuring food security and markets regulation. Above all, it would regulate the impact of purely financial speculative trading on the futures market, during which no-one ever takes delivery of physical goods.

In that way, some NGO's and farmers organizations propose:

- Maintaining adequate controls on agricultural products at the border of the European Union to preserve the productive structure of European territories, to avoid over-dependence on food imports.
- Variable levies could ensure that entry prices are fixed, unlike ad valorem customs duty, which offers no protection against low world prices in dollars: this effect is particularly noticeable when the dollar is weak.
- To manage production so as to eliminate all dumping, to stabilise both local production costs and consumer prices, by sharing production rights between member states, production areas and farms, as well as a minimal public storage programme to smooth out crop shortages due to climate events.
- To promote the grouping of supply by production area and collective management of production volumes by producer organisations: which questions the EU rules on domestic competition. For any form of contracts* between the food chains operators to be effective, it should not set in stone the weak position of farmers in the face of food manufacturers and multiple retailers.

*This year a new law passed in France will require the French agricultural sector to formalize in contracts their trading relationships with customers. The Loi de Modernisation de l'Agriculture et de la Pêche (LMAP) sets out to restructure the trade side of French agriculture, but English language documentation is sparse.


The volatility of agricultural prices lead one to question the role of futures markets in establishing prices

# 35 THE HAZARDS OF CLIMATE AND ECONOMIC CRISES: EU INTERVENTION REMAINS NECESSARY



The volatility of agricultural prices has increased as the CAP and international trade are deregulated. European farmers are more exposed than ever before to wide market fluctuations, as well as increasingly variable and unpredictable incomes.

Farmers face climate hazards and run economic risks that public authorities are trying to manage with new tools. EU member states are tending to turn to the financial markets and individual intiatives to find alternative cover for these risks: examples include contingency savings; recourse to futures markets and agricultural insurance policies. However, these mechanisms cannot take the place of public intervention.

## Futures markets and subsidised insurances

Futures markets are virtual markets which bring together speculators on one side and traders on the other, who cover themselves against rises or falls in prices. The massive speculative activity in 2007-8 caused grain prices to soar; however, none of the speculators concerned had any intention of taking delivery of any physical product. Price volatility is amplified by the futures markets and weakens both the farmers' ability to invest and the banks' ability to lend their farming customers any money, since there is no reliable medium term price forecast on which lending risks can be assessed. With the exception of Spain, Italy and Portugal, agricultural insurances are not highly developed in the EU-27. Some 23 % of crops were insured in 2004, with subsidies of €497 million euros in total, that is to say 32 % of the premiums. But the increasing volatility of prices is pushing up premiums.

There can be no easy consensus on this question, since 12 member states have no support for agricultural insurance*. Since the 2008 CAP health check, the European Commission has raised the possibility of subsidising crop insurance policies by up to 65 %.

## However, the scope of these instruments remains limited:

- They are only available to certain farmers and certain crops (notably cereals).
- They encourage an ever higher degree of specialisation in production systems.
- They encourage over-investment based on the tax advantages afforded to producers by certain member states.

## Some intervention schemes are still necessary to counter systemic risks

Where agriculture is concerned, the volatility of prices (strong rises followed by sudden falls) lead one to question the role of futures markets in establishing prices. Food and financial crises are a constant reminder of the difficulty in managing the risks through market-driven solutions, to the detriment of the European community's safety nets – intervention schemes.

Finally, as far as agricultural insurances are concerned, practices which foster resilience in the agricultural ecosystems (such responses as robust farming techniques, choice of crop rotations and the choice of varieties that resist climate hazards) are to be encouraged, since one of the best preventions of climate or market pricing crises remains the diversification of both holdings and multiple market outlets.

The experience of the United States shows that, in the context of highly volatile prices, the subsidies necessary to extend agricultural insurances are considerable: USD 7.9 billion in 2009, while USD 8.3 billion are forecast for 2011 to 2020. These sums benefit the insurance companies first and foremost, having perverse side effects, such as encouraging farmers to grow crops on land that is prone to climatic events.

*Source: European Commission - DG Agri

CAP influences the management of nearly 80 % of the land of the European Union

Photo: © jomare - Fotolia.com

"Public money for a public good." The economic concept of a public good has emerged in debates on the future of the Common Agricultural Policy. Many see this as a legitimate reason for paying public money to farmers. What is it about? And how can it be put into practice in future versions of the CAP?

Why should one talk about "public good(s)"? Farmers produce both agricultural goods, which are exchanged on the markets, but at the same time they also supply goods of public interest which are largely ignored by the trade mindset. It is a matter of maintaining landscapes, an improved management of water resources, soil fertility, rich and varied biodiversity, reductions in greenhouse gases or even the prevention of fires and floods.

These services are in the public interest and are rendered to society as a whole: they range from food security and food safety, passing through the maintenance of a viable rural economy (employment, occupation of land), if public decision makers judge it to be justified for strategic or political reasons. However, it is clear that according to the practices and production systems, agriculture can also have negative effects on the environment, which have a high cost for society ('public ills').

## Public good or environmental service in agriculture: why pay for them?

These services benefit the whole of society, not just the farmers who supply them. It is therefore legitimate that society should recognise this benefit, in as much as preserving the environment is a response to a real ecological imperative as well as a strong and growing demand on the part of citizens. The intervention of a public authority can be justified when there is a risk of 'under-supply' of these public goods, linked to a failure in the market.

Public environmental goods can be distinguished by their territorial scale. Climatic stability and protecting biodiversity are examples of global public goods, since the planet is at stake. The quality and management of water, the countryside can all be considered as local public goods at the level of a river system or a region.

## Paying for environmental services: a new course for the CAP

With regard to what is at stake in the environment, the CAP is a structuring policy in the sense that agriculture singlehandedly covers 41 % of the land in Europe, while also impinging directly on ecosystems. Together with forests which cover also 40 % of the EU area, it influences the management of nearly 80 % of the land of the EU. A socially-weighted targeting (depending on the number of jobs) of environmental direct payments is one of the few ways that any future CAP can be made fairer and more acceptable in the eyes of EU citizens. In sort, the role of the public authorities and public funding should logically be to remunerate goods of general public interest and not to encourage the negative effects of agricultural production. If paying for environmental services are to become a central principle of the CAP, it will be a new contract that will link farmers and society. Direct CAP payments could then be applied to significant changes in production systems that are both more environmentally friendly and still be as productive.

In order to support sustainable agriculture, it is necessary to refocus the policy objectives of rural development on maintaining and creating jobs as well as territorial cohesion

Photo : © RAD

# 37 BRINGING AGRICULTURAL JOBS BACK TO THE LAND



The presence of agricultural activities on the land implies synergies between those involved on the ground and an opportunity to develop human skills and resources. The second pillar can no longer be a variable to adjust the CAP, but could become motor for integrated rural development.

## Multifunctional agriculture adds value to employment and diversity

Farmers are able to develop a given potential in the local ecosystem and develop the strongest assets of the land where the holding is located. This logically leads to a diversity in production systems. Farmers are part of the occupancy as well as the life of the land, and should be associated with wider rural development projects which concern all inhabitants. The declination in local government activity, at various levels, should lead to the optimisation of local resources on the land. This development and improvement can come through the processing and direct selling of agricultural products, farm guest houses and developing rural tourism, supplying local authorities with farm products on a contractual basis, agencies or associations to protect water quality, biodiversity and the local landscape.

## The rural development policy should focus on human resources

The solution to today's challenges comes in part through restoring the local economy. It also includes making all those involved responsible for it. In the farming and food chain, local food supply chains should be encouraged, as should better links between producers and consumers. Local authorities are particularly well placed to help these initiatives, that can be joined into wider European policies.

Other measures which could improve the position of farming in the territory should be encouraged:

- Strengthen the support for farms in areas of natural handicap, to prevent the wholesale abandonment of agriculture and farmland in these areas and the desertion of rural territories.
- More active support for the setting up of young and new farmers, so as to renew the generations of types of agriculture that respect the environment and can be passed on to future generations.
- Support for small farmers and recognition for the key role that semi-subsistence farming can play in putting in place appropriate production systems. These can assure food security; save natural resources; become sources of income; contribute to rural development and fight climate change.
- Encourage training, engineering projects, the transfer of knowledge and skills, as well as sharing experience.
- Put the land issue on the EU agenda, about the difficulties to have access to land and to set up in farming in the EU so as to renew the generations of farmers.

# Ecological sound farming practices



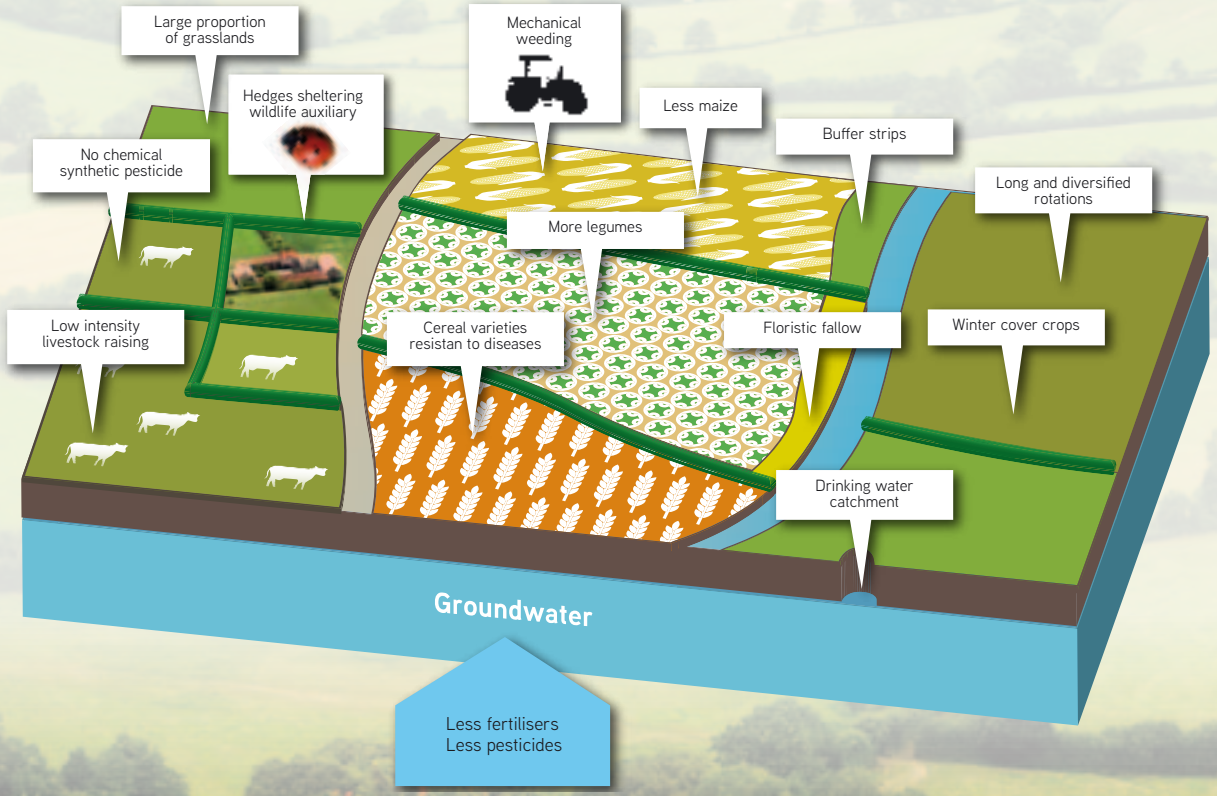



Photo: © sherez - Fotolia.com

Protecting biodiversity, that is preserving a diversity in wild and domestic species and ensuring space for them to interact is a trump card for the sustainability of agriculture.

Diversified farming with livestock, complex pasture habitats and integrated production systems, not to mention organic farming, have for years been living proof of what can be achieved with an agronomic balance between plants, soils and animals in Europe. The European high natural value farming zones (HNV) demonstrate the positive effects that can be obtained by raising some semi-natural vegetation, low animal stocking levels and a strongly developed diversity in the farming ecology (the fixed elements of the agricultural landscape).

## Legumes can help biodiversity

In the sector of extensive crops, numerous experiments show that good productivity rates can be obtained by increasing the diversity of varieties grown and reorganising the succession of crops to prevent the appearance of crop diseases. Associating different varieties and species on the same piece of land, as well as introducing techniques to reduce the dependence on external inputs or managing the land so as to help natural processes to support farming. This can make biodiversity a positive factor in production. In addition, the introduction of leguminous crops into crop rotations (peas, lupins, field beans, forage legumes) brings with it numerous agronomic and environmental benefits. By fixing nitrogen they enable to reduce sensitively greenhouse gas emissions. These crops provide habitats which support natural fauna that predate on insects, as well as allowing a reduction in the need for pesticides by reducing the impact of what would otherwise be 'crop pests' while also contributing to the soil structures. In the final analysis, leguminous crops offer an alternative sources of animal feed proteins, such as imported soya.

## Agricultural advice to support the transition to agricultural ecology

Public policies must be implemented that are based on the recognition of a new understanding of coherence, new forms of advice on possible solutions as well as introducing a fresh approach to such factors as energy and climate change. The challenge consists of passing from technical advice that is based on the use of external inputs to a partnership that changes production systems that apply the knowledge of both researchers and farmers, working together. Some real world examples show that this is both possible without losing income and results in significant reductions in crop treatments while leading to greater biodiversity.*

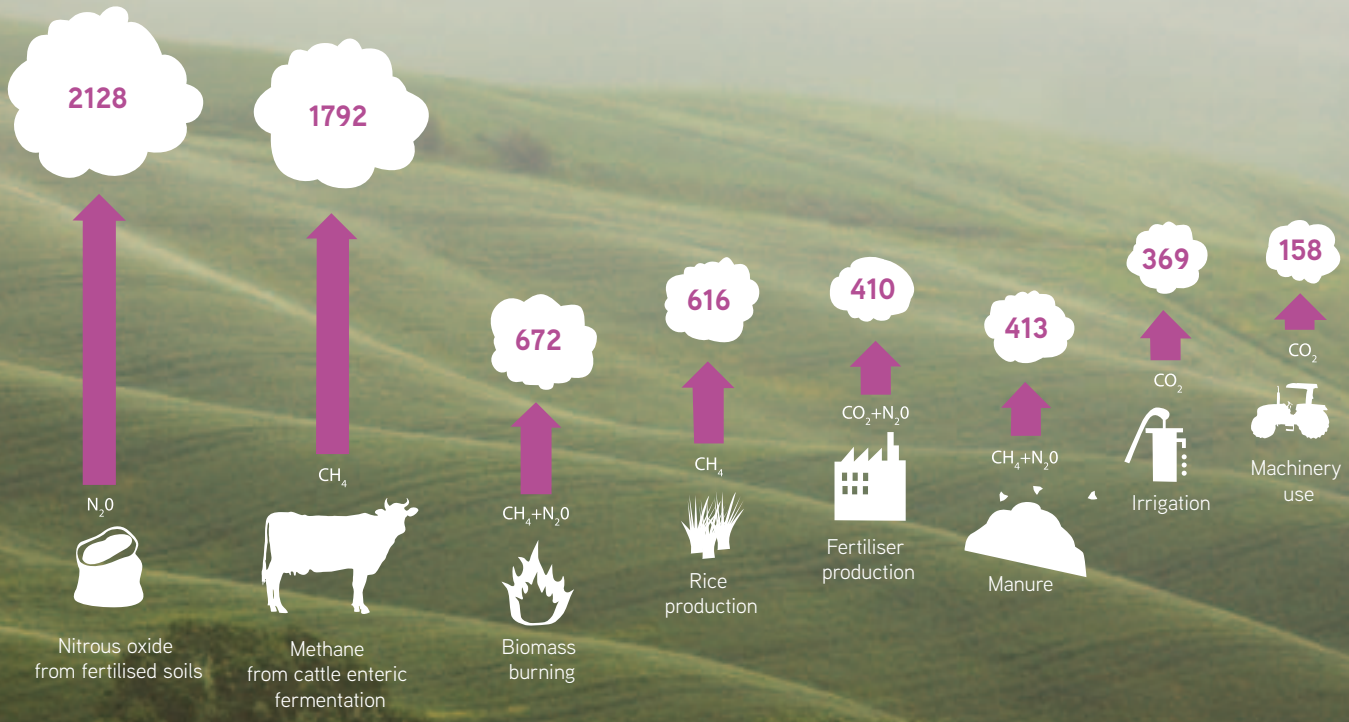
With this in mind, the CAP could achieve the following:

- develop systemic approaches in the training of future farmers and farm advisers.
- promote the development of analytical frameworks that allow a value to be attributed to ecological services**
- giving preference to results rather than technologies, by increasing the availability of training and retraining farmers, as well as evaluating the results with relevant indicators
- encourage regional or sectoral exchange groups of farmers engaged in sustainable farming
- generate a European database of agri-environmental innovations carried out locally by farmers and others

*http://www.inra.fr/l_institut/etudes/ecophyto_r_d/ecophyto_r_d_resultats

* Examples include the natural processes which purify air and water, or of specific interest to agriculture, the building of fertility in soil. For a discussion of one set of ecological services, see Wendell Berry's 2004 essay Agriculture From The Roots Up, included in his collection Bringing It To The Table, published by Counterpoint in 2009. (http://counterpointpress. com/essays.html#bringingit)

## Sources of agricultural greenhouse gazes, excluding land use change (Mt eq $CO_2$)




Source: Cool farming: climate impacts of agriculture and mitigation potential. Janvier 2008. Etude de J.Bellarby, B. Foereid, A.Hastings & P. Smith (School of Biological Sciences, University of Aberdeen – Scotland) pour Greenpeace International. Photo: Photo : © pitrs -Fotolia.com

Farming contributes to greenhouse gas emissions into the atmosphere, as well as being one of the first activities to suffer the consequences of climate change.

## Agriculture, climate change and energy dependency

Farming represents 13.5% of the world's greenhouse gas emissions and 10.5 % in the EU*. At the same time, it is capable of attenuating climate change by stocking carbon in the soil and in biomass. In parallel, climate change is already having an impact on agriculture. To promote food security, it is essential to simultaneously address the issues of attenuation and adaptation. To anticipate the engergy crisis and maintain production, agricultural systems must rapidly become autonomous in energy.

## A fact which calls for political action

According to experts, to avoid dangerous climatic changes, it is necessary to restrain global warming to 2°C between now and 2050. Because that will mean cutting greenhouse gas emissions by four in industrial countries, agriculture must play a part in these reduction efforts. Climate change was identified as one of the new challenges facing the CAP at the time of the 2008 CAP health check, mainly seen from the point of view of adapting to it. By the same token, the problems of agriculture's impact emerges in debates on how to deal with greenhouse gases at different levels: internationally with the Kyoto protocol, at a European level with the Climate and Energy Package, as well as national and local levels.

## An alternative form of agriculture to beat global warming

Because agricultural greenhouse gas emissions are very diffuse, varying from one production system to another and sensitive to numerous natural parameters, it is difficult to measure greenhouse gas emissions accurately at the moment. This should not be allowed to impede the necessary changes in intensive systems, in both inputs and energy. It is essential to go beyond scattered, piecemeal solutions and to integrate solutions on the ground with an overall and organised vision. In the context of globalisation there also remains the risk that high environmental impact farming is simply relocated to countries where the regulations are less strict, thus causing increases in greenhouse gases in these countries and lowering of emissions in our own countries (carbon leaks). Agricultural policies must make it possible to direct farming towards lower greenhouse gas emissions (using incentives, conditional subsidies, taxation and the like), while meeting the other environmental challenges and fulfilling agriculture's mission to feed the world.

To do this it is necessary to:

- to shift agiculture to alternative systems of production that rely less on mechanisation, huge quantities of chemical fertilisers and chemical pesticides, away from the indoor livestock that predominates in current units or ultra-specialised systems.
- support practices which use less energy and fewer inputs and which restore organic matter to the soil, allowing carbon to be stocked in the soil.
- to relocate certain livestock with grassland farming, which is diversified and grows integrated crops that will allow greenhouse gas emissions to be reduced significantly, reducing the need to haul lorryloads of animal feeds and frozen meat around the world.

* to which should be added deforestation, which represents 17.4 % of world emissions. Source: www.ipcc.ch

Consuming food when it is in season must be encouraged as much by educational programmes and public information as through closer links with producers and direct sales

Photo: © Pavel Losevsky - Fotolia.com

# 40 TOWARDS A FOOD POLICY THAT ENSURES BOTH FOOD QUALITY AND PUBLIC HEALTH



"Let your food be your only medicine" is what Hippocrates was advocating in the fourth century BC.

## Health, food and production systems are linked

The links between food and health have been clearly established when it comes to heart disease, certain forms of cancer, type two diabetes and obesity. A stern finger is pointed at food and drink that is rich in sugar and fat, as well as unbalanced daily intakes and the chemical contamination of our food, such as the presence of pesticide residues. Pesticides also have an impact on the quality of water and air: farmers are among the first victims. Unbalanced diets are particularly prevalent among those social classes with the lowest purchasing power, in particular the 80 million people in Europe who live below the poverty threshold. The illnesses that result have a social cost: in economic terms their treatment is estimated at €169 billion, or nearly three times as much as the money spent on the CAP*.

## Production systems that respect public health

The health risks that have characterised recent crises (BSE, dioxins, salmonella) must of course continue to be monitored very closely. But it is also important to develop epidemiological studies that will generate a better understanding of the long term effects of certain products, notably those present in synergistic combinations.

Nutritional and dietary risks also need to be better assessed: research into food quality needs to go beyond just the composition of a single food, but should also take into account the balance and coherence of the total diet. Education programmes need to be developed to teach nutrition, notably to promote more regular consumption of fruit, vegetables, grains and pulses as well as incorporating an awareness of the need for a reduced intake of animal proteins.

Public policymaking should also support production systems to meet the needs of public health, favouring systems that use little or no pesticides, excluding genetically modified crops and preserving local biodiversity.

## Develop access to good quality food for everyone

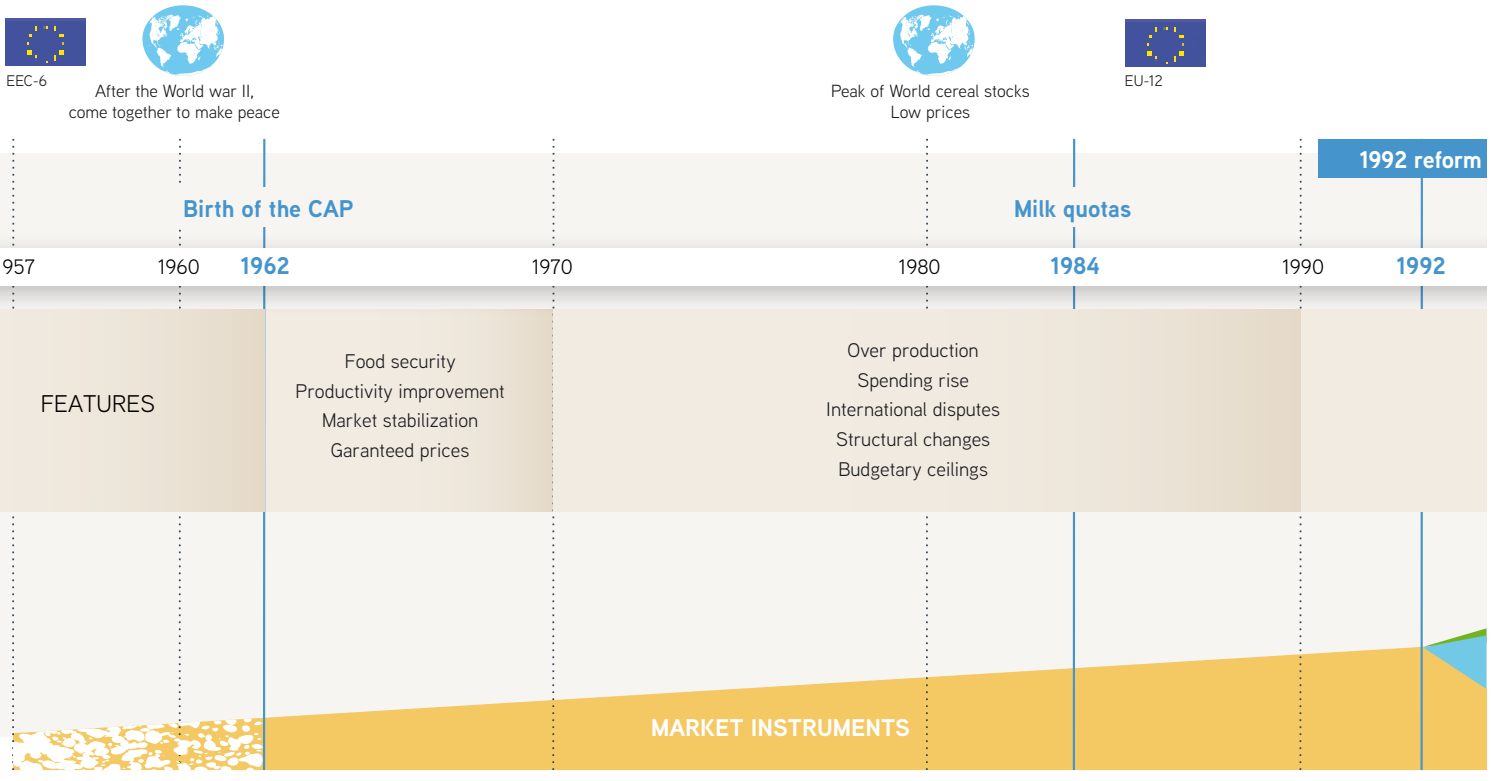
Consuming food when it is in season must be encouraged as much by educational programmes and public information as through closer links with producers and direct sales. The latter will contribute to re-establishing confidence between producers and consumers within the community. Projects which involve local authorities and farmers in the supply of local seasonal products for public sector catering are particularly promising.

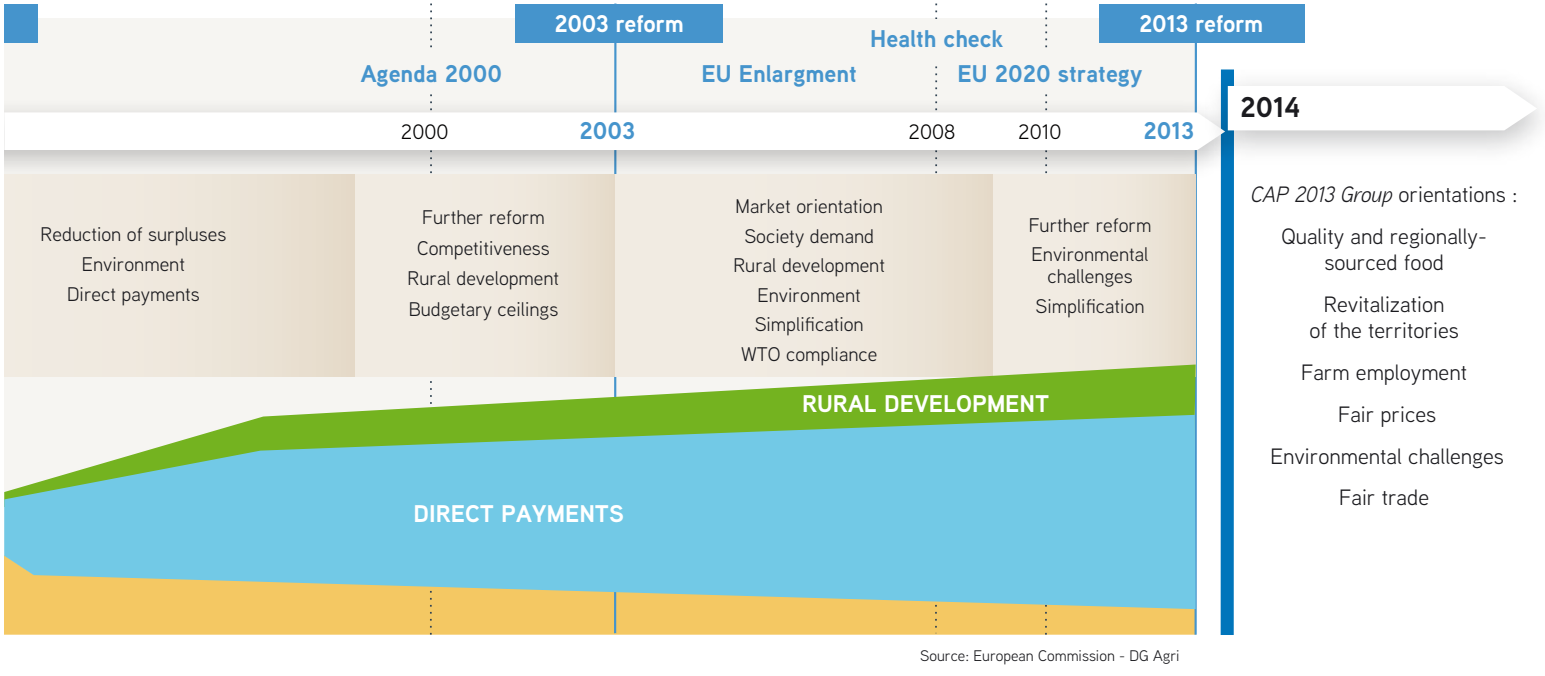
Finally, the European food aid programme for deprived persons (MDP) needs to be supported. The programme should set a target of diversifying the nutritional values of the products distributed, notably with the introduction of fruit and vegetables and quality proteins in community aid packages.

*Source: European Cardiology Society

# EVOLUTION OF THE CAP: BETWEEN SEDIMENTATION AND CHANGE








Source: European Commission - DG Agri

# USEFUL LINKS



## EU institutions

Committee of the regions:
http://www.cor.europa.eu/

Council of the EU :
http://www.consilium.europa.eu

European Commission (DG Agri):
http://ec.europa.eu/agriculture

European court of auditors:
http://eca.europa.eu

European economic and social committee:
http://www.eesc.europa.eu

European Parliament (Committee on agriculture and rural development):
http://www.europarl.europa.eu/meetdocs/2009_2014/organes/agri/agri_7leg_meetinglist.htm

Eurostat:
http://epp.eurostat.ec.europa.eu

## Prospective analysis and evaluation

Agronomic research (IAASTD):
http://www.agassessment.org/

Center for studies and strategic foresight of the French ministry of agriculture:
http://agriculture.gouv.fr/prospective-evaluation

Food and agriculture organization of the United nationss (FAO):
http://www.fao.org/

Joint research center (JRC):
http://ec.europa.eu/dgs/jrc/index.cfm

## Medias

Agrafacts:
http://www.agrafacts.com/

Euractiv:
http://www.euractiv.fr/agriculture-environnement

European voice:
http://www.europeanvoice.com/page/policies-farming-food/1126.aspx

## NGO's and think tanks

Agricultural and rural convention (ARC):
http://www.arc2020.eu

Concord:
http://www.concordeurope.org/

European food declaration:
http://www.europeanfooddeclaration.org/home

European platform for food sovereignty:
http://www.epfs.eu

Groupe de Bruges:
http://www.groupedebruges.eu/

Institute for environmental european policy (IEEP):
www.cap2020.ieep.eu

Institute for agriculture and trade policy (IATP):
http://www.iatp.org/

# GLOSSARY



| | |
|---|---|
| ACP | African, Caribbean and Pacific Group of States |
| AEM | Agro-Environmental Measures |
| AoA | Agreement on Agriculture |
| AREPO | European Association of Geographical Indications |
| ASEAN | Association of South East Asian Nations |
| AWU | Annual Worker Unit |
| BSE | Bovine Spongeiform Encephalitis |
| CAP | Common Agricultural Policy |
| CEJA | Conseil Européen des Jeunes Agriculteurs (European young farmers council) |
| CELCAA | European Liaison Committee for the Agricultural and AgriFood Trade |
| CIAA | Confédération des Industries Agro-Alimentaires de l'UE (EU food industries confederation) |
| CIRAD | CIRAD is a French research centre working with developing countries to tackle international agricultural and development issues. |
| CPMR | Conference of Peripheral Maritime Regions |
| COCERAL | Voice representing the European cereals, rice, feedstuffs, oilseeds, olive oil, oils and fats and agrosupply trade. |
| COMAGRI | The agriculture and rural development commission of the European Parliament |
| CMO | Common Market Organisation |
| CONCORD | European NGO Confederation for Relief and Development |
| COPA-COGECA | Committee of Professional Agricultural Organisations - General Confederation of Agricultural Cooperatives in the European Union |
| CPMR | Conference of Peripheral Maritime Regions |
| CWFS | Committee on World Food Security |
| DC | Developing countries |
| EAFRD | European Agricultural Fund for Rural Development |
| EAGGF | European Agricultural Guidance and Guarantee Fund |
| ECSC | European Coal and Steel Community |
| EAGF | European Agricultural Guarantee Fund |
| EEB | European environmental bureau |
| EEC | European Economic Community |
| ELO | European Landowners' Organisation |
| EPA | Economic Partnership Agreements |
| ERA | European Rural Alliance |
| EESC | European Economic and Social Committee |
| EU | European Union |
| FAO | Food and Agriculture Organization of the United Nations |
| FEFAC | European feed manufacturer's federation |
| GAEC | Good Agricultural and Environmental Conditions |
| GATT | General agreement on trade and tariffs (now WTO) |
| GDI | Gross Domestic Income |
| GDP | Gross Domestic Product |
| GNI | Gross National Income |
| GMO(s) | Genetically Modified Organism(s) |
| HNV | High natural value |
| IAASTD | International assessment of agricultural sciences and technology for development |
| IFAD | International Fund for Agricultural Development |
| IMF | International Monetary Fund |
| INRA | French national Institute for Agronomic Research |
| LDC | Less developed countries |
| LEADER | EU rural development programme |
| LFA | Less Favoured Areas |
| MDP | Most deprivated program |
| NGO | Non Governmental Organisations |
| OECD | Organisation for Economic Cooperation and Development |
| PDO | Protected Denomination of Origin |
| PGI | Protected Geographical Indicator |
| PURPLE | Peri Urban Regions PLatform Europ |
| RDP | Rural development plan |
| SMR | Statutory Management Requirements |
| SPS | Single Payment Scheme |
| TSG | Traditional Speciality Guaranteed |
| TOR | Traditional Own Resources |
| UAA | Total useable area available for agriculture |
| VAT | Value Added Tax |
| WFD | Water Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 |
| WFP | World Food Program |
| WTO | World Trade Organisation |
| WWF | World Wildlife Fund |

# CIVIL SOCIETY ORGANIZATIONS INVOLVED IN THE *CAP 2013 GROUP*



Les Amis de la Terre
2B rue Jules Ferry
93 100 Montreuil
www.amisdelaterre.org

CCFD
Comité catholique
contre la faim et
pour le développement
4, rue Jean Lantier
75001 Paris
www.ccfd.asso.fr

CFSI
Comité français
pour la solidarité
internationale
32, rue Le Peletier
75009 Paris
www.cfsi.asso.fr

Cheminements
La Foucherie
72600 La Fresnaye
sur Chédouet
www.cheminements-
solidaires.com

Confédération Paysanne
104 rue Robespierre
93170 Bagnolet
www.confederationpay-
sanne.fr

CMR
Chrétiens en monde rural
9 rue du Général Leclerc
91230 Montgeron
www.cmr.cef.fr

FNAB
Fédérations des agriculteurs
biologiques des régions
de France
40 rue de Malte
75011 Paris
www.fnab.org

Cohérence pour un dévelop-
pement durable et solidaire
1, Place Jules Ferry
56100 Lorient
www.reseau-coherence.org

FNCIVAM
Fédération nationale
des centres d'initiatives
pour valoriser l'agriculture
et le milieu rural
71 boulevard de Sébastopol
75002 Paris
www.civam.org

FNH
Fondation Nicolas Hulot
pour la Nature et l'Homme
6 rue de l'Est
92100 Boulogne-Billancourt
www.fondation-nicolas-
hulot.org

GRET
Groupe de recherche
et d'échanges technologiques
Campus du Jardin tropical
45 bis avenue de la Belle
Gabrielle
94736 Nogent-sur-Marne
www.gret.org

Peuples Solidaires
2B, rue Jules-Ferry
93100 Montreuil
www.peuples-solidaires.org

4D - Dossiers et débats
pour un développement
durable
24-30 rue des Recollets
75010 Paris
www.association4d.org

Réseau Action Climat France
2B, rue Jules Ferry
93100 Montreuil
www.rac-f.org

Réseau agriculture durable
17 rue du Bas-Village
35577 Cesson-Sévigné
Cedex
www.agriculture-durable.org

Solidarité
20 rue de Rochechouart
75009 Paris
www.solidarite.asso.fr

Terre de liens
26 rue Beaubourg
75003 Paris
www.terredeliens.org

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