



EU's CAP: Now and Beyond

Common Misunderstandings

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Why such Criticism of the CAP?

- The CAP has been roundly criticised by many diverse interests since its inception. Criticism has been wide-ranging, and the even the European Commission has long been persuaded of the numerous defects of the policy;
- The European Commission seems to be facing a communication problem: with the re-orientation of the Common Agricultural Policy (CAP);
- Today, there is still a common misconception amongst the public, based largely on images that persist from the 1970's and 1980's, that surplus food continues to be produced, dumped and destroyed;
- Lack of knowledge and understanding, among the public, about the CAP and its impact on their lives;
- Many EU citizens remain uninformed about EU Policies, what they mean to them and the impact they have on their daily lives.

Leading factors - High food prices

- Economists state that Europeans pay about 25% higher prices for food than they would without the CAP;
- European sugar costs more than three times the global market price;
- These subsidies are estimated to cost each EU citizen on average €24 per week although intervention costs and subsidy are decreasing;
- European consumers pay a regressive consumption tax for food consumed.



Leading Factors - The effects on Small Family Run Farms

- As a Policy it rewards larger producers;
- CAP has traditionally rewarded farmers who produce more, larger farms have benefitted much more from subsidies than smaller farms;
- Not sensitive to economies of scale. The larger the holding the more subsidies it earns!
- As a result most CAP subsidies have made their way to large scale farmers;
- Since the 2003 reforms subsidies have been linked to the size of farms, so this is not so true any more;
- Subsidies now allow small farms to exist BUT they funnel most profits to larger scale holdings.



Leading Factors - Environmental problems

- Increase pressure on natural resources to compensate the increase in production;
- Employ un-ecological farming practices & ways of increasing production;
- Limited Rural Development Funds to finance nature protection legislation, such as Natura 2000;
- Lack of appropriate financial resources to combine nature protection measures with the development of dynamic rural economies;
- On the other hand if we got rid of the CAP farmers in the most competitive areas would adapt by intensifying their production whereas in less competitive areas, farming would cease and with it the many environment and landscape-related features associated with land use.



Is it still so?

- Since the reforms of 2003 much more attention is paid to environmental problems, and the idea that CAP is contributing negatively on the Environment is no longer true as:
 - Farm payments are no longer linked to production, but to the respect of so-called Cross Compliance rules;
 - The farmer has to guarantee strict environmental, animal welfare and food quality standards. If he does not, his aid is reduced;
 - The structure of the Rural Development policy gives a lot of importance to environment. This also highlights the way in which the CAP is positive for the environment;
 - At least a quarter of Rural Development spending must go towards environmental projects;
 - RD projects also contribute by enhancing the quality of life in rural areas and the economic viability of farming activities through sustaining complementary income activities.






Leading factors - The Cost of CAP

General Perception is that CAP is too expensive as it accounts to:

- more than 40 percent of the EU budget;
- just 1.6 percent of GDP;
- employs only 5 percent of the working population.

However this is misleading as:

- The CAP is the only policy funded totally from the EU budget;
- Ten years ago, 0.61 % of the EU's GDP went to farmers. Today that figure currently stands at 0.43 % and in another ten years, it will be down to around 0.33 %;
- If we take into account all public budgets, the CAP is about 1 % of public spending in the EU;
- If there were no CAP, individual Member States would still subsidise their farmers;
- This could lead to subsidy competition, would require intensified management under State aid rules and could potentially result in higher overall spending.



Leading factors - CAP money goes to people who don't even farm!

- Some people think that CAP money goes to the coffers of wealthy businessmen that exploit the land for anything except agricultural use;
- In reality the latest reforms re-structured the way subsidies are paid as:
 - Only persons carrying out an agricultural activity have access to the Single Payment Scheme;
 - Only agricultural land may be used to activate payments;
 - Where there is no agricultural production, the land must be maintained in good agricultural and environmental condition;
 - It is not possible to receive an EU farm subsidy for leisure (eg: golf course)
 - Following Health Check, Member States have the power to withhold direct payments from recipients who are not real "farmers".

Leading factors- Food Crisis

- Many producers and consumers think that it is the CAP to blame for the latest food crisis as they associate this policy with:
 - Overproduction of unwanted commodities (Butter mountains, Milk lakes)
 - Farming for subsidies - producing food for which there is no market;
 - Limited choice of high quality food;
 - For example the Milk sector - Throwing milk away at a time when parts of the world are experiencing a food crisis is a rather paradoxical activity. However, it is a strong signal from the farmers that the margins of milk production are under pressure;
 - Instead many farmers are currently looking at their quota levels as production targets irrespective of the market. This is irrational from an economic point of view and milk flooded fields are an irrational answer to that. Quota is an opportunity to produce and not an obligation.



Leading factors- Food Crisis

In reality CAP has contributed to:

- be part of the solution to ease the global pressure on food prices;
- Following Health Check of the CAP this led to the decoupling of direct payments. Hence the link between support and production has been broken;
- Now farmers can respond to market signals & increase production as a reaction to higher prices;
- Farmers can now become true entrepreneurs, produce what the market and consumers want, look for profitable new markets and exploit new niches;
- Moreover with the removal of compulsory set-aside and milk quotas there will be more coherence with policies for development and trade has greatly increased.





Leading factors - Economic sustainability

- Economists believe that the CAP is unsustainable in an enlarged EU;
- The inclusion of ten additional countries on May 1, 2004 has obliged the EU to take measure to limit CAP expenditure;
- New Member States represent a significant increase in recipients under the CAP;
- Eg. Poland is the largest new member and has two million smallhold farmers alone;
- Even before expansion, the CAP consumed a very large proportion of the EU's budget, upward of 90% in the late 1980s;
- When considering that a very small proportion of the population, and relatively small proportion of the GDP comes from farms, many considered this expense excessive.



Leading factors - Economic sustainability

- Other concerns include the equity among member states;
- Some countries in the EU have larger agricultural sectors than others, notably France, Spain, and Portugal, and consequently receive more money under the CAP;
- Certain countries make net contributions, notably Germany (the largest contribution overall) and the Netherlands (the biggest contribution per person), but also the UK and France. The largest per capita beneficiaries are Greece and Ireland;
- France has a slightly lower GDP than the UK, and its higher population means that it earns slightly less per person compared to the UK;
- Germany has a GDP approximately 25% higher than either France or the UK, but per capita income is comparable to the other two countries;
- France makes a net payment into the EU budget, so it can not be said that it receives a subsidy from any other country;
- France, Germany and the UK all contribute towards funding of CAP subsidies to other Member states, France contributing the least of the three.



Socio-economic factors

- The CAP is also criticised by third countries because of the direct effects that these subsidies are having on these countries;
- It is argued that these subsidies, like those of the USA and other Western states, stimulate non-liberalised markets and many “external” countries see Europe as a fortress ;
- Oversupply of agricultural products sold in the Third World is simultaneously preventing the Third World from exporting its agricultural goods to the West;
- The CAP increases Third World poverty by putting Third World farmers out of business;
- According to the Human Development Report 2003 in 2000 the average dairy cow in the EU received 708 Euros in subsidies, compared with an average of 7 Euros in Africa.

In reality is there a need to erect such barriers ?

- Food security vs trade;
- EU is the world's biggest exporter and importer of agricultural products;
- The competitive advantage is in the provision of high-value processed foods;
- The aim should be to strengthen the position of European farmers and food companies;
- Huge opportunities to increase exports of high quality foods to expanding markets such as China and India;
- Not in the interests of farmers to create trade barriers for trade partners.



Who is getting the CAP money?

- The biggest concern is on how funds are being managed;
- The Commission is fully committed to ensure a fair and transparent process;
- CAP money is taxpayers' money and EU citizens have the right to know where it goes;
- Full transparency is compulsory from 2009;
- The publication of fund recipients has to be carried out by the Member States.




Do CAP export subsidies destroy farmers' livelihoods in developing countries?

- No they don't. It is true that in the past, there was an overproduction of commodities at high prices which were then exported with the help of generous export subsidies;
- This has changed. 15 years ago this used to cost €10 billion a year on export subsidies. However in 2009 this amounted to €350 million;
- The main destinations concerned by export subsidies are the Mediterranean Basin and the rest of Europe;
- Only a minimal proportion of subsidised goods find their way to Africa;
- Thanks to various reforms and recent developments in commodity markets subsidies are less needed as prices are now aligned with world market prices;
- There are no export refunds for cereals, rice, dairy products or fruit and vegetables;
- It is planned that the Commission will phase out export subsidies entirely by 2013.



Short & Long terms effects of reforms

- The first reform of CAP was in 1992 and is known as the Mc Sharry reform. Here direct aid programmes were introduced;
- The CAP has been widely reformed, firstly in 1992, then in 1999 and 2003;
- This did not immediately manifest itself in the pattern of CAP expenditures;
- There is a significant time lag before policy shifts manifest themselves in changing patterns of expenditure;
- Indeed, the lead-time between initial conception of the direction of reform and actual changes in the pattern of CAP expenditures can be five to six years;
- The pace of change does, however, tend to accelerate once the principle of change has been accepted by EU Member States and the major stakeholders concerned.



Does CAP address the needs of rural communities?

- The EU rural development policy (pillar 2) plays an important role in creating territorial, economic and social cohesion;
- In recognition of its potential for improving the competitiveness and sustainability of the countryside, there has been an increasing emphasis on rural development, which is transforming a sectoral policy into a territorial policy;
- Rural development funds should also help landowners face these challenges for rural areas:
 - providing food security;
 - environmental goods and services ;
 - facing climate change events ;
 - maintaining extensive farming activity;
 - Sustainable production.



Are rural stakeholders involved in the decision making process?

- In order to create a competitive and truly sustainable European agriculture economy stakeholders have to participate actively in reform debates & pressure groups;
- This will enable rural actors to adapt to market conditions and that their environmental service is adequately valued;
- This has to be done by engaging stakeholders in the decision making process at local, regional and national levels;
- One effective tool introduced by the Commission was the establishment of rural networks as part of the rural development policy for 2007-2013.



Thanks