



The Health Check of the Common Agricultural Policy

Introduction

At the same time as the review of the EU budget, the European Union is also subjecting the Common Agricultural Policy (CAP) to what is referred to as a 'health check'. The reason for doing this in parallel is that the CAP forms a significant part of the EU budget and without looking at this policy there is significantly less scope for reforms in the overall budget.

This briefing paper is intended to help those who wish to contribute to the consultation on the budget review to understand some of the basics of the CAP and how it impacts on the budget of the European Union. This paper in no way claims to be a comprehensive assessment of the CAP: many volumes have been written on the subject and a briefing paper could never do the subject justice. However, it is an attempt to tease out some of the key issues and questions and provide some pointers for further information.

A little bit of history

The aim of the common agricultural policy (CAP) is to provide farmers with a reasonable standard of living, consumers with quality food at fair prices and to preserve our rural heritage. The policy has evolved to meet society's changing needs, so that food safety, preservation of the environment, value for money and agriculture as a source of crops to convert to fuel have acquired steadily growing importance.¹

The CAP was an important part of the founding Treaty (Treaty of Rome) of the European Union and has played an important part ever since. It was grounded in the experience of food shortages over a long period of time, and the recognition of the importance of food security to the peoples of Europe. The original aims of the CAP in the context of the Treaty of Rome were to:

- ◆ Increase productivity, by promoting technical innovation and ensuring optimum use of factors of production
- ◆ Ensure a fair standard of living for the agricultural community
- ◆ Stabilise agricultural markets
- ◆ Secure availability of agricultural supplies
- ◆ Provide consumers with food at reasonable prices²

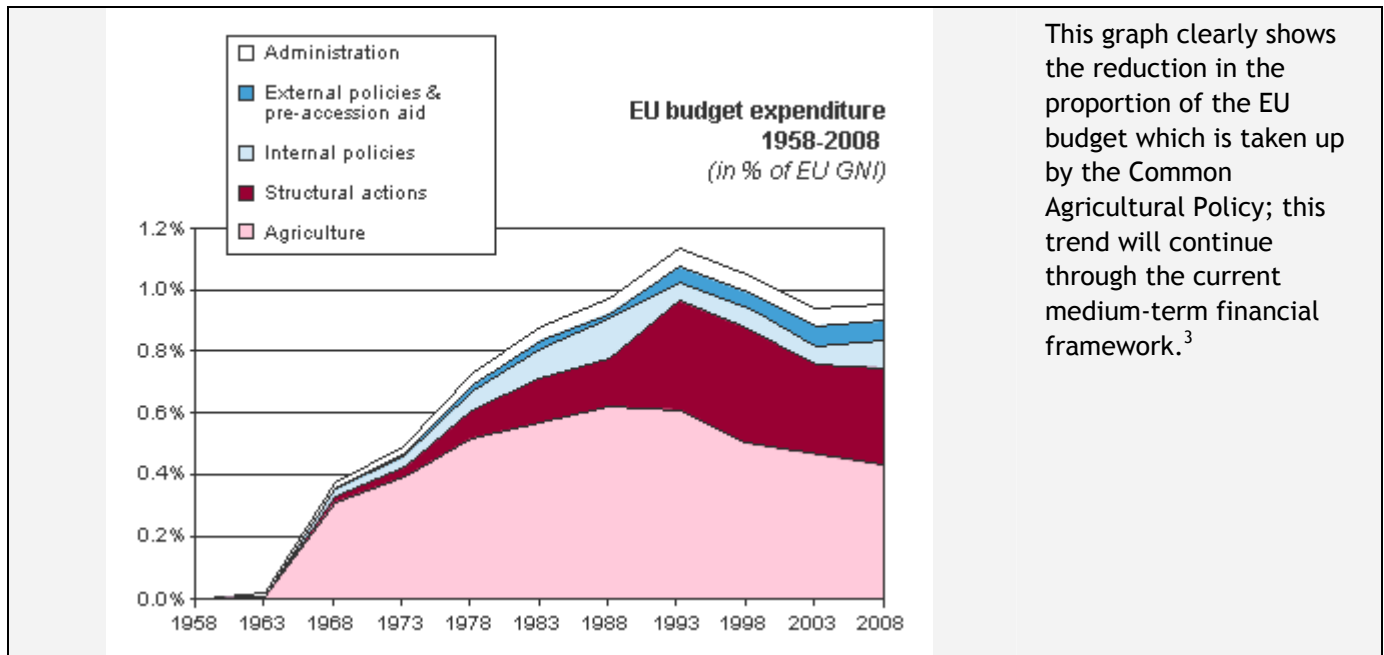
That this policy was incorporated into the Treaty of Rome and all subsequent Treaties gives it a somewhat special status within the European Union and means that while it can be reformed it would be virtually impossible to stop having a Common Agricultural Policy, even if that was desirable. That said, the Treaty does not go into significant detail on what the policy should look like, so within the concept there is room for change.

Change has taken place already

In the intervening years much has changed, both in terms of the market for agricultural goods at a global level and in terms of the position of the agricultural sector in Europe. The CAP has changed, notably by a reduction in the proportion of the EU budget allocated to it. This can be seen clearly in the following graph:

¹ Introduction to the CAP on the EU website accessed at: http://europa.eu/pol/agr/overview_en.htm on 11 January 2008

² Eurobarometer Survey, Europeans, Agriculture and the Common Agricultural Policy, March 2007, accessed at: http://ec.europa.eu/public_opinion/archives/ebs/ebs_276_en.pdf on 14 January 2008



This graph clearly shows the reduction in the proportion of the EU budget which is taken up by the Common Agricultural Policy; this trend will continue through the current medium-term financial framework.³

The way CAP functions and the relative importance of different policies within it have also changed. The old CAP instruments (quotas⁴, public intervention⁵, price support and refunds⁶) have already been subject to some changes and the most recent reform in 2003 was a particularly significant step in this direction.

It is interesting to see how the stockpiling of agricultural products in the EU has changed over time. For example, the stockpiling of cereals reached a peak in the early 1990s and has since reduced significantly. For butter, the highest levels of stockpiles happened in the mid 1980s and have since reduced to relatively low levels. For beef, there has been a more varied picture with the peak reached in the early 1990s and lower peaks occurring during periods when there were crises such as BSE and Foot and Mouth disease in some EU countries.⁷

More recently, support has been in the form of a direct payment linked to the amount of land farmed rather than particular products or quantities produced. These payments have been combined with strict compliance mechanisms, requiring farmers to comply with environmental, animal welfare and food safety standards, thereby combining the benefit of stabilising farm income and achieving desirable policy objectives in these areas. And because the subsidy is not linked to production of particular products or quantities, farmers are free to make decisions about their production which are responsive to the market.

³ Graph from EU website at http://ec.europa.eu/budget/reform/history/history1957_en.htm accessed on 14 January 2008

⁴ Quotas, which are limits on imports of certain agricultural products from outside the EU are reducing in significance as they are being increased over time.

⁵ Public intervention - purchasing products from producers when the market price falls below a certain level (this led in the past to significant stockpiling of agricultural products - wine lakes, butter mountains etc.) has reduced significantly over time.

⁶ European Commission, Preparing for the 'Health Check' of the CAP reform, 20.11.2007, p 6, accessed pm 14 January 2008 at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0722:FIN:EN:PDF>

⁷ Source of this information: European Union, The Common Agricultural Policy Explained, accessed on 14 January 2008 at: http://ec.europa.eu/agriculture/publi/capexplained/cap_en.pdf

Despite these direct payments, which are said to be decoupled from production, there are still some mechanisms in place which relate to specific products including some cereals, dairy, dried fodder, starch, flax and hemp.⁸

Key priorities for the ‘Health Check’

The key priorities for the ‘Health Check’ and following on from the 2003 CAP reforms are the following:

- ◆ Reducing the direct product related interventions with regard to cereals (see above).
- ◆ Reforming the set-aside rules regarding land use for cereals and other crops for food and fodder; at present, farmers have to set aside a proportion of their land and leave it uncultivated at any given time. The intention is to assist farmers to curb overproduction by paying compensation for not using land to grow such crops on some of their land. The EU has now put in place targets for the production of biofuels and this, combined with recent weather related problems, has raised the question of whether this should be stopped. This needs to be set against the environmental benefits of set-aside.
- ◆ Finding a way of helping farmers to cope with the ending in 2015 of the dairy quota - a limit on the amount of dairy products (e.g. milk) that can be produced.
- ◆ Dealing with a range of new, and maybe not so new challenges including:
 - Assisting farmers to further develop their risk management
 - Addressing issues arising from climate change such as changes in precipitation, extreme weather conditions, temperature levels, water availability and changed soil conditions
 - Water management
 - Biodiversity
- ◆ Strengthening the rural development aspects of the CAP. Currently only 5% of direct aid under the CAP is channelled into rural development and the proposal would be to increase this to 13% by 2013. As the total expenditure on CAP as a proportion of EU spending is set to reduce during this period, this objective will have to be reached by reducing the spend on other CAP measures.

Conclusion

This paper is not intended as an in-depth introduction to the CAP but simply looks at the framework within which the ‘Health Check’ is taking place. The ‘Health Check’ itself is seen as a preparatory action for the budget review.

The picture which emerges is that there is no suggestion that hand in hand with the budget review there will be a root and branch review of the CAP; rather, the downward trend in total expenditure, the trend away from production related subsidy to income subsidy, the trend towards compliance measures and the trend towards rural development and environmental protection and management are set to continue. The literature available on the ‘Health Check’ does not reveal the speed with which any of this is likely to be driven forward but there is also no indication that anything is set to speed up in comparison with current practice.

⁸ European Commission, Preparing for the ‘Health Check’ of the CAP reform, 20.11.2007, p 8, accessed pm 14 January 2008 at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0722:FIN:EN:PDF>