

Quick guide

CAP Reform Post 2013 No.2

December 2010

What is the CAP Reform Process and Why is it important to Wales?

The **first Quick Guide in this series** was published in **February 2010**. It provided an explanation of the Common Agricultural Policy (CAP), the history of CAP reform, the key issues that are being considered as part of the current reform and the timetable and process for the current reform.

On the 19 November 2010, the Commission published its first Communication on CAP Reform Post 2013 entitled, *The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future* (hereafter, The Communication).¹ The Communication sets out three possible options for the future reform of the CAP. The second Quick Guide in this series provides a summary of these options, the context in which the proposals have been brought forward and initial reactions to them.

CAP Reform is important for Wales because farmers and rural communities in Wales currently receive funding worth approximately £390 million annually² from the CAP and for the majority of farmers in Wales the CAP continues to account for the largest proportion of their farm profitability.³

What is the context for this reform of the CAP?

The Commission began a public debate on the future of the CAP after 2013 in April 2010 in which it asked for stakeholder's views on what the objectives and general direction of the policy should be. The public debate ended with a two day conference on the conclusions of the debate in July 2010.⁴ The results of the public debate found that the majority of respondents supported a strong common policy structured around two pillars. There was also a general consensus on what the objectives of the CAP should be after 2013.

¹ European Commission, *The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future*, COM(2010)672, November 2010 [Accessed 29 November 2010]

² RoP, *Chamber Debate on the Rural Development Sub-committee's report on Reform of the Common Agricultural Policy*, 3 November 2010

³ Welsh Assembly Government, *Farming, Food and Countryside: Building a Secure Future Annex 1 Industry Challenges*, May 2009, [Accessed 29 November 2010]

⁴ European Commission, *Public debate on the CAP Post-2013*, Website, [Accessed 29 November 2010]

These were:

- Food Security and the provision of a diversity of high quality food,
- Creating and sustaining rural employment and,
- Sustainable farming that protects the environment and contributes to climate change.

In **June 2010**, the European Union adopted the **Europe 2020 Strategy** which sets out the EU's strategy for growth for the next decade. The Strategy has **three over-arching objectives** to which a future CAP will have to respond. These are that the EU **develops a smart, sustainable and inclusive economy**. In the Communication published on the 19 November, the Commission sets out how a future CAP will contribute to these objectives:

- **Smart growth**- A future CAP will contribute to smart growth by increasing resources efficiency and competitiveness, supporting the development of green technologies and investing in training;
- **Sustainable growth**- A future CAP will contribute to sustainable growth by providing environmental public goods, ensuring sustainable land management, enhancing carbon stocks and reducing emissions and promoting renewable energy.
- **Inclusive growth**- A future CAP will contribute to inclusive growth by unlocking the economic potential of rural areas, developing local markets and supporting farmers' income to maintain sustainable agriculture throughout Europe.

The **EU Budget Review** which is currently underway will set out the **financial perspectives** of the EU for the **period 2014-2020**. The Budget review will have a significant impact on the future of the CAP as the CAP accounts for approximately **40 per cent of the EU budget**. The most recent Commission Communication on the Budget Review was published in October 2010. It emphasised the importance of a thriving agricultural sector to the EU economy and the contribution of the sector to *Europe 2020* but also stated that a continuance of the trend that has seen the CAP budget decline over recent years would still leave agriculture representing a major public investment:

A sustainable EU economy needs a thriving agricultural sector making its contribution to a wide variety of EU objectives – including cohesion, climate change, environmental protection and biodiversity, health and competitiveness, as well as food security. A series of reforms to the Common Agricultural Policy has seen support to farmers increasingly linked to delivering these goals and the share of the CAP in the overall budget falling steadily in recent years. Continuing the trend would still leave agriculture representing a major public investment – one falling on the EU's shoulders, rather than on national budgets.⁵

⁵ European Commission, [*The EU Budget Review, COM\(2010\)700*](#), October 2010 [Accessed 29 November 2010]

What objectives for a future CAP does the Communication identify?

The Communication on the future of the CAP identifies three objectives:

- *Viable Food Production*: CAP will need to contribute to stable farm incomes, to improve the competitiveness of the agricultural sector enhancing its value share in the food chain and compensate for production difficulties in areas with specific natural constraints so as to reduce the risk of land abandonment.
- *Sustainable Management of Natural Resources and Climate Action*: CAP will need to secure the enhanced provisions of environmental public goods, to foster green growth through innovation and to pursue climate change mitigation and adaptation.
- *Balanced Territorial Development*: CAP will need to promote diversification within the rural economy, to support the structural diversity in the farming system and in particular improve the conditions for small farms.

What does the Communication say about the key instruments of the CAP?

In its Communication, the Commission states that while the two pillar structure of the CAP will remain all three options put forward in the Communication as potential options for a future CAP will require some change to the current CAP instruments such as direct payments and market measures.

Direct Payments

The Communication proposes some changes to the way in which direct payments are currently allocated to farmers and Member States. The Commission states that a more equitable distribution of CAP payments between all Member States will be required although the use of a single flat rate payment is unlikely as this would not recognise the different economic and natural conditions faced by farmers.

The Commission proposes that future direct payments to farmers are based on the following principles:

- Farmers should continue to receive **basic income support** to provide a uniform level of obligatory support to all farmers in a Member State based on transferable entitlements. The Commission also proposes introducing an **upper ceiling for direct payments** received by large individual farms.
- The environmental requirements associated with receiving direct payments should be enhanced by the introduction of a **mandatory greening** element which would require farmers to follow a series of environment measures applicable across the whole of the EU territory.
- Provision of additional income should be made to agriculture in areas with **specific natural constraints**. This funding would **complement** support given for less favoured areas under Pillar 2.

- Specific support should be given to **small farmers** to enhance competitiveness and contribute to the vitality of rural areas.
- Payments in future should be subject to simplified **cross-compliance** rules.
- Support through direct payments should be better targeted at **active farmers only**.

Market Measures

The Communication states that there is support for maintaining the market orientation of CAP but allowing **simplified market management tools** which would act as safety-nets in crisis situations. It states that regulations on food quality and legal proposals to implement the recommendations of the High Level Expert group on milk and dairy will be brought forward shortly. In addition the Communication proposes that a future CAP should address the issues of **food supply chain equality** in order to ensure that farmers can reverse the decline in their share of the value added generated by the food supply and increase their bargaining power.

Rural Development

The Communication sets out three broad goals for Rural Development funding:

- To **improve the competitiveness of agriculture** by promoting innovation and restructuring;
- To **improve the sustainable management of natural resources** by improving the environment and agriculture's resilience to climate change;
- To **ensure balanced territorial development** by building capacity in rural areas.

The Communication also states that **climate change, environment and innovation** should be guiding themes of **all actions** completed under Rural Development programmes.

In addition, the Communication calls for measureable and effective delivery mechanisms for funding and for greater coherence between rural development funds and other EU policies.

What are the three policy options for a future CAP set out in the Communication?

The Communication sets out **three possible policy options** for a future CAP which aim to outline three potential paths for reform.

- **Option 1:** Option 1 would introduce some **gradual changes** to the current policy building on well-functioning aspects and making some **adjustments** to areas that are perceived to be less successful such as the distribution of direct payments between Member States.
- **Option 2:** Option 2 would require '**major overhauls**' of the policy framework with reforms focussed on making the policy more **sustainable, equitable and targeted**. The Communication states that this option would make CAP more understandable to citizens, generate greater efficiencies and provide a stronger focus on the value added by agriculture. The Communication argues that this option better aligns with the aims

of the Europe 2020 Strategy.

- **Option 3:** Option 3 would lead to a more **'far reaching'** reform of the CAP with a strong focus on the environment and climate change. Under this option there would be a **gradual move away from income support and market measures** with a clear financial focus on the environment and climate change under the Rural Development policy framework.

Further details of what each option would entail is available in table provided at the end of the European Commission's press release on the Communication which can be accessed on the Commission's website [here](#).

In preparing legislative proposals for reform of the CAP the Commission will complete an impact analysis of the social, economic and environmental impacts of all three options.

What is the timetable and process for reform?

The Commission has **issued a consultation** to help **inform the impact assessment** that will be completed on the Communication. The aim of the consultation is to gather views on whether **the objectives and issues** identified by the Commission in the Communication are **appropriate** and to gather the **views** of stakeholders on **the three proposed options** for reform. The consultation also hopes to gather analytical documents to assist the Commission with the completion of the impact assessment. The consultation will run until **25 January 2011**.

Following the closure of the consultation the Commission will **bring forward legislative proposals** for consideration by the **European Council and Parliament in early Summer 2011**. **Negotiations** between the **European Council and Parliament** will take place during **2012** with the aim of reaching an agreement by **2013**.

Further information on the role of the different European Institutions in the reform process is available in the **first Quick Guide in this series**.

What are the views of different stakeholders?

The Welsh and UK Governments are yet to issue formal statements in response to the Communication. In a press release ahead of the **first Farm Council meeting** to discuss the Communication the **Welsh Minister for Rural Affairs, Elin Jones** stated:

As with all matters with the CAP, it is important to fully understand the detail. That level of detail is unlikely to be known until next summer. I intend therefore to use the months ahead to play a full role in helping to shape the UK negotiating position that will meet the needs of Wales and Welsh farming. To help me in that process, I will want to work closely with the farming and countryside interests in Wales.⁶

⁶ Welsh Government Press Release, [CAP Reform: Elin Jones leading for Wales](#), 29 November 2010, [Accessed 29 November 2010]

The UK Government is reported to have stated that whilst the Communication sets out the **right travel of direction**, the reform process needs to **be accelerated** with a greater focus on **promoting competitiveness**.⁷

The **Farm Council of EU Farm Ministers** discussed the Communication for the first time on **29 November 2010**. The Farm Council **broadly welcomed the proposals** outlined in the Communication with the **majority of Ministers favouring Option 2** as the future direction of travel.⁸ During the Council Meeting the **UK Farm Minister, Jim Paice**, indicated support for a **greater focus on competitiveness and market orientation** under the Rural Development Framework of Pillar II to enable a **move away from a reliance on direct income subsidies** under Pillar I.⁹ In addition, the UK Minister highlighted the need to **simplify the policy** and noted that the Commission's proposals to add multiple tiers of payment under the direct payment scheme may restrict the possibility of further simplification under this reform.¹⁰

The majority of **Members of the European Parliament (MEPs)** broadly welcomed the Communication in their first debate on its content. In particular many welcomed the assurance that farm subsidies would be **focused on active farmers** and that the Commission would seek a **more equitable distribution of direct payments** between Member States. Many MEPS called for simplification and reduction of red tape to be considered as part of the reform process.¹¹

Copa-Cogeca the largest European coalition of farming unions stated that the Communication **failed to respond to the challenges faced by EU farmers** and cooperatives and that further **greening of direct payments** would **threaten the economic viability** and competitiveness of European farmers.¹²

Environment NGO's have broadly welcomed the direction of travel outlined in the Communication and in particular the proposal to include **more mandatory environment measures under Pillar 1**. However, several have stated that the **real commitment to greening the policy** will be demonstrated **in the detail of the legislative proposals** to be published by the Commission **in 2011**.¹³

⁷ Euractiv, [*Brussels outlines vision for 'fairer' EU farm policy*](#), Website, 19 November 2010 [Accessed 29 November 2010]

⁸ AGRAFACTS, *Farm Council: EU Farm Ministers broadly positive about CAP Communication post-2013*, No.96-10 29.11.2010

⁹ *ibid*

¹⁰ *ibid*

¹¹ AGRAFACTS, *Commission Blueprint on CAP towards 2020- Discussions Now Start in Earnest*, No93-10, 18.11.2010

¹² *ibid*

¹³ *ibid*.

Further information

For further information on aspects of CAP Reform After 2013, please contact **Nia Seaton** (Nia.Seaton@wales.gov.uk), Members' Research Service.

For further information on the topics below, double click on the links.

- European Commission website on [The CAP Post-2013](#)
- Welsh Government website on [The Common Agricultural Policy](#)
- UK Government website for [CAP Reform](#)
- The European Parliament website for the [Agriculture and Rural Development Committee](#)
- The [European Council](#) Website
- Institute of European Environment Policy Website on [CAP2020: Debating the Future of the Common Agricultural Policy](#)
- [Copa-Cogeca website](#), the website of the largest European coalition of farming unions and cooperatives
- [Land Use Policy Group website](#), the website of the UK's statutory environment and nature conservation agencies.
- [Euractiv](#), a news and analysis website on European issues provides a summary of key stakeholder reactions to the Communication.

View our full list of [quick guides](#) here.

MRS 10/0808 Nia Seaton

Members' Research Service briefings are compiled for the benefit of Assembly Members and their support staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public. We welcome comments on our briefings; these should be sent to the Members' Research Service, National Assembly for Wales, Cardiff CF99 1NA or e-mailed to MembersLibrary@wales.gov.uk