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# **The Future of the Common Agricultural Policy after 2020**

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## *Introduction*

The next reform of the Common Agricultural Policy (CAP) is due to take effect from 2021, however the initial phases of this reform process have already been started. This paper presents and discusses the main events that have an important role in shaping the future of CAP. Also, the main policy issues related to the upcoming reform are analysed. The common position of the Visegrád Group of countries is presented as well.

## *Background*

The CAP is one of the most important policy instruments utilized by the European Union. In spite of gradual reductions, its budget still accounts for 39% of the total EU expenditure. The CAP – through its elaborate system of subsidies and market regulation tools – continues to help reaching key economic, social and environmental policy goals in the rural areas of Europe.

Through its long history, the CAP has been subject to systematic, major modifications and reforms. The latest of those reforms include (Jámbor et al., 2014):

- the MacSharry reform, which introduced direct income support as a substitute for a system of guaranteed minimum prices in 1992;
- the Agenda 2000, which introduced rural development as a second pillar of the CAP in 1999;
- the Luxemburg Agreement, which broke the link between direct payments and agricultural production (decoupling), and which introduced a set of environmental, food safety, animal health and welfare requirements to be respected by all beneficiaries of area-based support (cross-compliance) in 2003;

- the Health Check, which further strengthened the targeting of market-oriented support, and introduced support mechanisms related to agricultural risk management, climate change and biodiversity in 2008;
- the latest reform, which transformed the direct payments by introducing a 'green' element beneficial for the climate and the environment, by focusing on young farmers' support and by introducing a maximum limit on receivable aid (capping) in 2013.

Although the last stages of the full implementation of this latest reform are still ongoing, the next reform process has already started. This paper aims to give an overview of the steps of this process. Secondly, the main policy issues that are likely to come up are analyzed.

### *Public consultation on the future of the Common Agricultural Policy*

From February to May 2017, the European Commission performed a consultation campaign on the modernisation and simplification of CAP. The consultation was open to all interested parties via a questionnaire available on the website of the Commission (this whole section is based on: European Commission, 2017). The questionnaire contained 28 closed and 5 open questions. There were 58 520 answers to the questionnaire, 36,5% of the respondents were farmers, 47,7% other citizens, and 15,8% organizations (including governments bodies, private companies, professional organizations and academic institutions). The high level of participation allows for building a representative picture of the public opinion on the future of CAP (although it has to be noted that over half of the answers came from a single country, i.e. Germany).

The results show that the stakeholders have a strong interest in keeping a strong, common agricultural and rural development policy across the EU. The majority of the respondents agreed that keeping a single EU agricultural market is important, where the main market rules are the same in each Member State for every farmer concerned. They also felt that combating climate change, promoting the environment, addressing market uncertainties, sharing best practices and adopting common international positions is much more efficient at the EU-level than at the level of individual countries. The responses were quite mixed however, concerning the splitting of responsibilities between EU and Member State (some call for more unified EU-level action while others would welcome a wider playing field for Member States).

The respondents identified the low level of agricultural income, the restrictions on the access to land, and the demanding environmental, nature conservation and food safety requirements to be the main challenges that farmers are facing today. The CAP seems to address these

problems only in part. The shortcomings of CAP are caused by its over-complexity, lack of flexibility and too much red tape.

The survey shows that different actors see their own roles and that of CAP differently. Farmers see themselves as suppliers of quality food, and think that the CAP should mainly ensure their fair standard of living by boosting investment, employment and by granting direct income support. Other citizens, however, feel that farmers should also contribute to nature conservation efforts and ensure that food safety and animal welfare criteria are met. They see the CAP as tool to promote the protection of the environment, organic farming, climate change mitigation efforts and consumer protection. Special attention is paid to protection of water and soil, biodiversity and reducing greenhouse-gas emissions.

Respondents were also asked about their preferences concerning the allocation of direct income support. Farmers would like to see more payments in areas with natural constraints, nature protection areas and for young farmers. They also welcome a maximum ceiling for direct aid, which limits payments for large beneficiaries. There was a clear demand for the simplification of CAP: this could be achieved through eliminating overlaps and redundancies in different policy areas, making better use of modern technologies to reduce the number of field inspections (remote sensing, geo-tagged photos), and reducing administrative burden by extending the use of e-governance tools and linking different government databases.

A conference titled "The CAP: Have your say" was organized on 7 July 2017 in Brussels, where the outcome of the public consultation was extensively analysed by key policy actors. A special focus was given to exploring the economic, environmental and societal dimensions of a future CAP. The results of the conference and the questionnaire served as an important input to the Commission's preparatory activities for designing the renewed CAP.

### *Commission communication on the future of the Common Agricultural Policy*

On 29 November 2017, the European Commission published its much anticipated official communication on the upcoming reform of the CAP titled "*The Future of Food and Farming*" (this whole section is based on: European Commission, 2017). In this document, the Commission has outlined its main policy goals and ideas for the period after 2020.

Realizing the strict, inflexible, and sometimes burdensome nature of CAP implementation, the Commission calls for a new delivery model for CAP payments in which more room is given for Member State decisions. The current CAP is based on detailed EU-level legislation, which describes in detail the nature and extent of administrative and physical controls to be performed before farmers can receive the support amounts. This central approach is often highly bureaucratic, causes heavy administrative

burden for authorities and farmers alike, and cannot adapt very well to local conditions and problems. Therefore, the Commission proposes that the Union should only set the basic policy cornerstones, and Member States should be given more responsibility for implementing the policy in a fashion that fits both their local conditions and the common policy framework. Member States would be given more freedom in designing how CAP subsidies are delivered to beneficiaries, what controls are performed, etc. Meanwhile, the Commission would remain responsible for monitoring that the overall strategy objectives are met. In order for the Commission to be able to do this, Member States first have to draw up CAP Strategic Plans, which describe their own delivery models - the Commission then reviews and approves such plans in advance. By increasing subsidiarity, the Commission hopes to attain a more result-driven and efficient CAP, which seeks to achieve more realistic goals, and in which administrative burden is decreased.

The document also presents the main policy issues related to the upcoming reform. *Support for knowledge, research, innovation, new technologies* is key to economic progress in all sectors, including agribusiness. Technological development can lead to better targeted use of resources (for example via the use of precision farming techniques). Experience shows that the dissemination of knowledge and the spread of new technologies is limited in the agricultural sector, and there are also big regional differences. Therefore it should be a policy goal of the renewed CAP to advance research, support the sharing of knowledge and best practices. Particular attention should be paid to producer organizations, as they serve as a good forum for the dissemination of knowledge.

*Direct income support for farmers* continues to play a major role in bridging the gap between the lower level of agricultural income and the higher level of average incomes in other sectors. Also, the extra payment for farms in areas with natural constraints is also justified to compensate lower-income agricultural regions. There is an ongoing debate, however, about the distribution of direct payments. Currently, half of the beneficiaries of the CAP are very small farms, but they receive only a marginal proportion of CAP funds, while the biggest farms (20% of total beneficiaries) receive 80% of payments. This bias in the distribution of payments prompted the introduction of degressivity in the 2013 reform (high direct payment amounts receive a proportional reduction). The Commission plans to take a step forward after 2020 in this regard by leaving the current arrangements for degressivity in place, and by introducing compulsory 'capping' for direct payments (there will be a maximum amount of direct payments, beyond which no beneficiary can receive aid). Also, more emphasis could be put on the so-called redistributive payment, which grants a support premium for holdings with fewer hectares. In the document, Commission also sets out to converge support levels between different Member States in order to reach an equal market position for all farmers in Europe, regardless the country they perform their farming activities in. The Commission's communication does

not seem to radically transform the system of direct payments, as some experts would deem appropriate (Swinbank & Tranter, 2004).

In order to modernize and restructure farms and to improve their market positions and profitability, the CAP needs to support *investment in the agricultural sector*. There is a dual purpose: to improve the position of farmers within the food chain (so that they don't only fill the role of base material producers), and to open new horizons in emerging bio-technology based industries, sustainable energy and rural tourism. In this respect, the role of producer organizations is important, as they can be good initiators of collective investments.

An emerging policy area of the CAP is *agricultural risk management*. Agriculture is more sensitive to risks associated with extreme weather conditions than any other industry; this fact is further underlined by the adverse effects of climate change. Having identified this situation, the decision-makers have already established tools within the CAP to cope with associated risks. Under rural development, beneficiaries receive aid for paying the insurance fee for private insurance policies against natural damages to crops (fire, frost, flood, draught etc). An income stabilisation tool is also available for losses of income due to adverse weather conditions. In its current communication, the Commission plans to examine the possibility of increasing the role of private capital in agricultural risk management. Also, new support mechanisms could be established, aiming at the re-insurance of the mutual funds of farmers, and incentivizing farmers' savings for natural hardships. Some experts warn policy makers, however, about the market distortion effects of public risk management arrangements (Tangermann, 2011).

In the area of *environmental protection and climate change*, the Commission has ambitious plans for the future. Currently, there are different regulatory areas within the CAP that deal with the conservation of nature and the protection of the environment ('green' direct payments, cross-compliance standards, and voluntary agri-environmental measures). These distinct policy areas will be integrated, forming a unified framework which includes a single baseline (a set of compulsory criteria that all beneficiaries have to meet in order to receive payment) and different voluntary undertakings that go beyond the baseline. Member States will have some freedom in the definition of the baseline, so that they can fit the requirements to the specific conditions encountered in the specific country/region. It seems that there will be possibility to differentiate between levels of voluntary undertakings: entry-level schemes with basic nature protection requirements, and more sophisticated and demanding agri-environment schemes. Collective action by farmers will gain emphasis concerning these payments. New environmental goals might also appear in the future, such as compulsory nutrient management plans, precision agriculture, creation of landscape features. On the other hand, old goals that have a high contribution to the conservation of nature will continue to play a role (permanent pasture, organic farming, biodiversity).

Besides its economic and environmental goals, the CAP has aimed to achieve social and cohesion results in rural areas. The impact of CAP on

regional cohesion is a much debated topic (Shucksmith et al., 2005). Rural areas usually have less favourable conditions (unemployment, lack of infrastructure, low level of education etc.), which have to be mitigated through public policy. The new CAP aims to *increase the number of jobs in rural areas* through investing in sustainable businesses. The employment possibilities from bio-technology based industries, renewable energy resources, biomass mobilization and rural tourism should be utilized by people living in the countryside. Also, bringing education and training possibilities to rural areas is very important.

The age of people working in agriculture tends to be above the average Europe-wide. Starting an agriculture business has special obstacles, for example high land prices, legal restrictions on the transfer of land, less favourable public perception of agricultural activity. Therefore the CAP sets out to help *young farmers* begin their business in agriculture. In its communication, the Commission proposes to simplify the support for new entrants: instead of the different requirements of the current regime, the payment could take the form of a simple top-up instalment, which could be paid along with other support the young farmer is entitled to. The development of the professional skills and knowledge of young farmers is also very important, which could be achieved through trainings.

### *Next steps toward a renewed CAP*

After performing an impact assessment exercise in the first months of 2018, the Commission plans to present a legislative proposal for the new CAP in the summer of 2018. The proposal will further elaborate the contents of the Communication of November 2017. Earlier, the Commission voiced its expectation that the new legislation would be passed by 2019, still under the mandate of the current European Parliament and Council. While an early adoption of the related Community legislation would indeed be a desirable outcome for Member State administrations, experts remain sceptical about its feasibility. First, the adoption of such important legislation by both Parliament and Council is a lengthy process in itself. Secondly, the proposal for the Multiannual Financial Framework (MFF) – which determines the budget of the European Union in the next period – comes up in May 2018. The substantive debate on CAP can only begin once an agreement on the budget is reached (since it also determines the funds available for the CAP after 2020), which clearly puts a delay on CAP proceedings as well.

The Commission published a reflection paper on the future of EU budget and finances (European Commission, 2017). There are five different budget scenarios outlined in this document. Concerning the overall size of the EU budget, the options range from significant decrease to significant increase in Community spending. Unfortunately for the CAP, however, only one of the scenarios envisage an increase in agricultural spending (this scenario calls for a radical increase in overall Community funds, and

therefore it is not very likely to be realized). All other options plan to decrease CAP spending. The amount of this decrease will most likely be determined in the course of the MFF debates of 2018.

### *The position of the Visegrád group of countries*

The Visegrád Group of Member States often communicate their common position on the proposed future of the CAP. These Member States call for the continuation of a strong, two-pillar CAP, without any radical alterations of the current system, and by avoiding significant decreases in CAP funds. They decline the notion of national co-financing of direct payments, and also ask for a stability in funding rural development projects. The possibility to grant coupled payments in sectors with troubled market conditions is also an important feature of the CAP that needs to be kept in the future as well. Also, Visegrád countries call for Community legislation to improve farmers' position in the food chain and to limit unfair trade practices in the sector.

### *Conclusions*

Once the legislative proposals are on the table, an interesting period for all stakeholders in the CAP commences. The renewed CAP will likely continue to be based on two pillars, with a focus on agricultural risk management, research and innovation, agricultural investments, young farmers and social and territorial cohesion. Also, reaching ecological and nature conservation goals will continue to play a major role in setting CAP objectives. Although its budget might decrease, the CAP remains one of the most important EU policies. Therefore, keeping an eye on its evolution in the next period is an important topic for related scientific research.

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