Voluntary - Public

Date: 6/5/2018

GAIN Report Number: E18038

EU-28

Post: Brussels USEU

CAP Reform proposals criticized by EU farmers and Member States

Report Categories:

Policy and Program Announcements

Approved By:

Mary Ellen Smith

Prepared By:

J. Barrie Williams

Report Highlights:

On June 1, 2018, the European Commission published its legislative proposals for the Common Agricultural Policy (CAP) post 2020. Notably, these proposals cut direct subsidies paid to farmers in most Member States but increase them in the Baltic countries and other Eastern Member States. The Commission also increased the share of support targeting smaller farms. The proposals cut rural development program funds. It is likely that European Council and Parliament will debate these proposals over the next 12 – 24 months.

General Information:

Reduced Direct Payments

The proposed CAP budget for the 2021 – 2027 period of Euro 365 billion ($427 billion) represents a reduction of around 5 percent in comparison to that of the previous period. The CAP budget will still be divided between its two traditional pillars: direct support for farmers/market measures and rural development.

EU Agriculture Commissioner, Phil Hogan, asserted that he had: "*…listened very carefully…*(to stakeholders)…*and have therefore decided to prioritize the protection of direct payments in the new budget. As a result, direct payments will not fall by more than 4 percent in any Member State*." However, the Commission proposes a 10 percent cut in rural development funding under the second pillar. The Member States would have the opportunity to bridge this gap through higher national co-financing rates.

Under the proposals, farmers would receive some Euros 232 billion ($271 billion) over the period in direct payments, representing a cut of over Euro 30 billion ($35 billion) from the current budget. The proposals also foresee more money being targeted to small farms. More specifically, direct payments to farmers will be reduced when assistance reaches Euro 60,000 ($70,000) and capped for payments above Euro 100,000 ($117,000) per farm. Small and medium-sized farms will receive a higher level of support per hectare. Member States will also have to set aside at least 2 percent of their direct payment allocation to help set up young farmers.

The farm ministers of France, Spain, Portugal, Ireland, Finland and Greece immediately made a joint statement decrying the cuts and calling for current spending levels to be maintained. Under the proposals, French farmers would still receive the highest share of direct payments over the 2021 – 2027 period at over Euro 44 billion ($52 billion), representing a Euro 3.7 billion ($4.3 billion) reduction from the funding received between 2014 and 2020. Spanish farmers, the second highest beneficiaries, would receive Euro 29.7 billion ($34.8 billion), down by Euro 2 billion ($2.3 billion) from the previous period. Italian direct payments would decrease to Euros 22.1 billion ($26 billion) by Euro 1.9 billion ($2.2 billion).

Although most EU Member States would experience a roughly 4 percent drop in direct payments to their farmers, the Baltic countries and other smaller Eastern Member States would see their funding increase by up to 13 percent. The CAP currently gives farmers from some countries,, mainly ex-Communist states in East Europe, considerably less per hectare than their counterparts in countries such as France and Italy. This is due to a calculation formula that is meant to account for lower land and labor prices in those Eastern Member States.

Joachim Rukwied, President of the European Farmers Organization Copa, reacted by asserting: "*We are very concerned about the impact of these proposals. Direct payments, that are the best and by far most efficient way to stabilize farmers' incomes and help them to better manage income risks, are being eroded further under this proposal. We oppose any capping or degressivity of payments as proposed by the Commission.*" Rukwied also welcomed "…*the fact that Members of the European Parliament*

(MEPs) have deplored any cuts in the EU's farm budget…A strong budget is vital for the future of agriculture and of rural areas."

"<u>A New Way of Working</u>"

The proposals allow Member States to develop individual Strategic Plans covering the 2021 – 2027 period, setting out how they intend to meet nine EU-wide economic, environmental and social objectives using both direct payments and rural development. More specifically, the nine objectives are: ensure fair income, increase competitiveness, rebalance power in the food chain, take action on climate change, support environmental care, preserve landscapes and biodiversity, support generational renewal, maintain vibrant rural areas, and protect food and health quality. Member States will also have the option to transfer up to 15 percent of the CAP allocations between direct payments and rural development and *vice- versa* to ensure that their priorities and measures can be funded. The Commission will approve each plan to ensure consistency and protection of the single market. Each year, Member States will submit a performance report to the Commission to show progress towards the targets that have been set based on specific result indicators. The Commission will review the reports and consider any appropriate actions including recommendations for improving performance where necessary. The Commission asserts that the "new delivery model" associated with this "new way of working" should both simplify the currently overly complex rules for farmers and administrations, and make the CAP more oriented to results rather than concentrating on compliance.

Copa President Joachim Rukwied expressed farmers' fears that: "…*when it comes to the new delivery model outlined in the proposal, it will not result in a real simplification of rules for farmers.*" President of Cogeca, the European farming cooperatives, Thomas Magnusson, highlighted his concerns about the practicalities of the performance-based measures, asserting: *"Impact indicators for the environment need to take into account external factors such as climate change… We cannot accept that the bureaucracy for monitoring the performance of it has been shifted down to farmers and forest holders.*"

<u>Other Elements of the Proposals</u>

Other elements of the proposals include a stronger link with environmental objectives whereby direct payments will be subject to enhanced conditionality. A significant part of the funding will be ring-fenced for actions beneficial to the climate and the environmental rural development. A crisis reserve will be created to address crises caused by unforeseeable developments in international markets. Support for risk management tools such as income stabilization will need to be introduced in the Strategic Plans.

<u>Next Steps</u>

The Commission's legislative proposals on the CAP need to be agreed by both the Council and the European Parliament. As these proposals were published on June 1, 2018, it is questionable if agreement on the CAP package can be reached before the European elections scheduled for May 2019. The current Bulgarian Presidency has indicated that the future of the CAP will be discussed at the informal meeting of Ministers of Agriculture in Sofia this month.