



Common Agricultural Policy

Background

The Common Agricultural Policy has been an extremely important element of the European Community since the signing of the Treaty of Rome. Even today it accounts for just under 50% of the total EU budget. Its objectives remain: to increase agricultural productivity, to ensure a fair standard of living for the agricultural community, to stabilise markets, to assure the availability of supplies. Clearly, though, the pressures on European agriculture have changed. Postwar food shortages are a distant memory. The current reality is one of an expanding European Union operating within an increasingly important and highly political world trade framework. Since the conception of the CAP, a number of changes have taken place, the most significant of which were the MacSharry reform of 1992 and the Agenda 2000 package. Both attempted to make European agriculture more competitive on the world market. The latter aimed more broadly at integrating environmental protection and food safety requirements into the CAP. Still, however, the EU remained under pressure from its trade partners to reduce the trade distorting nature of the policy, with important consequences for the developing world.

2003 CAP Reform

The key achievement of the Commission's and farm ministers' long negotiations which were concluded on June 26 2003 has been to break the basic link between subsidies and production – a link which affects the degree to which agricultural policy distorts trade and to which agricultural goods of the highest quality are produced.

Decoupling

The "decoupling" of subsidies from production, in the form of the 'single farm payment' based on all CAP payments received over the last three years, now becomes the standard "default" position for EU support in the main crop and livestock sectors. Still, as part of the compromise achieved, "coupled" support payments are set to continue in many member states.

The single farm payment is to be introduced as from January 1 2005. However, member states may opt to delay implementation of the single farm payment by up to two years (at the latest by January 1 2007). Member states have at least five different options (as well as a number of sub-options) as an alternative to full decoupling. Whilst the flexibility built into the system will help industries such as the quality beef sector which would have been threatened by rigid de-coupling, any of the new measures based on the "partial decoupling" approach are set to increase the red tape both in the administration and on farms. The implication is that, within a few years, no two member states will be operating exactly the same agricultural aid payment system.

The options for "partial de-coupling" include:

- The creation of "policy envelopes" whereby up to 10% of each member state's overall national aid entitlements can be re-allocated "for the purposes of encouraging specific types of farming.", such as the quality beef sector or for environment and quality promotion.
- Retain 25% of cereals, oilseeds and protein crops coupled,
- 50% of sheep and goat premia coupled
- 4 alternative methods for the beef sector.

Additional points related to decoupling include:

- Ultra-peripheral islands (Azores, Madeira and the Canaries) and drying aid are excluded from the provisions
- The creation of a national reserve for farmers with no eligibility during the reference period (2000-2) for the purposes of calculating the single farm payment.

Modulation

Another important development contained within the reform is compulsory modulation, moving a certain percentage of funds from direct support mechanisms to rural development measures. It is to begin in 2005 with a rate of 3% deggression of direct support levels. This will be increased to 4% in 2006 and 5% from 2007 onwards. In each case, 1% of the modulated money will be retained by the member state where it was generated. The remainder will be distributed across the EU, based on the allocation criteria proposed by the Commission earlier, but the whole formula would be adjusted to ensure that each member state receives at least 80% of its own modulated funds. Farmers receiving less than €5 000 in aid will not be liable for modulation, and nor will farmers in outermost regions and the Aegean islands. Farmers receiving between €5 001 and €50 000 annually will effectively pay at only half-rate (i.e. 1.5% in 2005). As the UK is currently operating the voluntary modulation system adopted under Agenda 2000 it will be allowed to "modulate" at a higher rate in order to ensure continuity of long-term programming commitments. This is likely to be at a rate of 4.5% in 2005, so this would be a higher rate than the EU standard rate in 2005 and 2006. The standard EU-wide rate of 5% would come into effect from 2007 onwards.

"Cross Compliance"

All payments will be linked to the respect of environmental, food safety, animal and plant health and animal welfare standards, as well as the requirement to keep all farmland in good agricultural and environmental condition.

WTO

A pressing international reason for a successful reform of the CAP was to enable completion of the WTO Doha Round negotiations. Whether enough has been done to satisfy our trade partners is dependent on how much use is made of the possibility to maintain some "coupled" aids (Blue Box) rather than using the single farm payment (Green Box). The current demand is that Blue Box aids be cut by 50%.

Future reforms

The Commission intends to submit proposals for reform of the olive oil, tobacco and cotton regimes during autumn 2004. These will be based on the objectives and the approach of the 2003 reform. Whilst a reform of the sugar regime is foreseen, the Commission has given no official indication as to when such proposals can be expected. Furthermore, the Commission will produce a report on the functioning (or otherwise) of the reformed CAP by 2007.

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