

FCRN Summary of report:

Recent evolution of the EU Common Agricultural Policy (CAP): state of play and environmental potential, Gay S.H., Osterburg B., Baldock D., Zdanowicz A. MEACAP WP6 D4b, Federal Agricultural Research Centre, Braunschweig and Institute for European Environmental Policy, London, March 2005 (MEACAP WP6 D4b)

Full report available at: http://www.ieep.org.uk/PDFfiles/MEACAP/WP6-CAP%20paper_final.pdf

This report provides an overview of the key elements of the Common Agricultural Policy both prior to and following the 2003 agricultural reforms. It then assesses the possible impacts of the 2003 reforms on biodiversity objectives, Kyoto commitments and forestry.

The report is very detailed and looks at the impacts of the reform on different Member States, on different land types and on certain key commodities, such as sugar. The following paragraphs provide only a very brief summary of the key elements of the 2003 reforms and of the report's conclusions of the report for agriculture. For those not familiar with CAP terminology, definitions of key terms are provided in the box below.

Basic CAP terminology

Pillar one: Pillar one consists of direct area and livestock related payments available to nearly all farmers, export subsidies, support for intervention buying and storage, and a few independent market regimes, e.g. for some Mediterranean products such as olive oil, tobacco and cotton. Pillar One measures are developed and administered at the EU level.

Pillar two: Pillar Two measures are aimed at supporting broader rural development and environmental objectives, through measures such as subsidies to farmers forgoing economic benefits to protect environment (agri-environment measures), income support to farmers in so called less favoured areas, on-farm and rural infrastructure investment support, training and technical assistance. Pillar Two allows Member States to choose from a broad menu of measures aimed at improving the competitiveness of the agricultural sector, maintenance and improvement of the environment, and the overall improvement of living conditions in rural areas.

Modulation: Modulation means reallocating funds from the direct payments in Pillar One of the CAP to rural development measures in Pillar Two. The 2003 reforms make modulation compulsory whereas previously they were only voluntary.

Decoupling: Decoupling breaks the link between the production of a specific agricultural commodity and the receipt of direct payments. From 1 January 2005, eligible farmers receive one payment rather than several separate production based payments.

Cross compliance: from 1 January 2005 farmers in receipt of direct payments will be required to respect a set of statutory management requirements and maintain eligible land in good agricultural and environmental condition. Non-compliance will lead to reductions in direct payments.

National envelopes: Member States can retain coupled support up to a certain percentage, then skim off funding from direct payments in order to create national envelopes. These then enable up to 10% of Pillar one money to be used to support agri-environment schemes.

Single Payment Scheme: This replaces a number of previous direct subsidy schemes including (in the UK) the Arable Area Payments Scheme, the Beef Special Premium and the Dairy Premium. Under the scheme, farmers are allocated 'entitlements' of a particular value per hectare. They can then claim for payment on an annual basis providing they are meeting cross-compliance conditions.

1. Key ingredients of the CAP 2003 reforms

The three key elements of the 2003 CAP reform of Pillar One, set out in Regulation (EC) 1782/2003 are: *decoupling*, *compulsory modulation* and *cross compliance*. Modulation and cross compliance are not new to the CAP but prior to the 2003 reforms were only voluntary measures and were applied by very few Member States. Member States with historical reference information for direct payments - all those in the EU at the end of 2003 - will operate a Single Payment Scheme (SPS).

In summary the 2003 CAP reforms create:

- A single farm payment for EU farmers, independent from production; limited coupled elements may be maintained to avoid abandonment of farming;
- This payment 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 (cross-compliance);
- A strengthened rural development policy with more EU money, new measures to promote the environment, quality and animal welfare and to help farmers to meet EU production standards starting in 2005;
- A reduction in direct payments (modulation) for bigger farms to finance the new rural development policy;
- A mechanism for financial discipline to ensure that the farm budget fixed until 2013 is not overshot;
- Revisions to the market policy of the CAP:
 - asymmetric price cuts in the milk sector: The intervention price for butter will be reduced by 25% over four years, which is an additional price cut of 10% compared to Agenda 2000, for skimmed milk powder a 15% reduction over three years, as agreed in Agenda 2000, is retained,
 - reduction of the monthly increments in the cereals sector by half, and the current intervention price will be maintained,
 - reforms in the rice, durum wheat, nuts, starch potatoes and dried fodder sectors.

Note that although there is a significant increase in the proportion of funds for rural development (reaching 24% of the CAP budget by 2013), a large proportion of this funding will go to new Member States. As a result the actual amount available for the EU15 is unlikely to increase.

The report emphasises that the CAP needs to be understood in the wider context of the WTO and the Doha Development Round. The Framework Agreement, reached by negotiating partners to the WTO in August 2004, gives details of the principles of a new phase of worldwide trade liberalisation, including a reduction in agricultural support and market protection. It will see the EU eventually phase out all export subsidies and reduce the overall levels of trade-distorting domestic support by at least 20 percent of the base level in the first year of the agreement's implementation. Specific 'modalities' (numbers or formulae) for reducing tariffs and cutting subsidies are scheduled to be agreed at a later stage, and in principle in advance of the ministerial meeting in Hong Kong in December 2005. In a final stage of the negotiation, specific commitments have to be delivered by WTO Member States including the EU.

The CAP reform of 2003 deals only with the internal support of agriculture, and leaves the level of external protection unchanged. The system consist on the one hand of export subsidies which are still used for a large number of commodities, namely dairy products, beef, sugar, processed foods, grains, pork and some others. On the other hand, the highest tariffs are still applied for agricultural products in the EU, despite a considerable reduction in the course of the implementation period of the Uruguay Round. Tariff peaks exceeded 200 percent in 2004 for some beef cuts and are close to 200 percent for some dairy products. The average tariff rate in 2004 for agricultural products was 16.5 percent compared to 4.1 percent for all other products. 20 percent of the base level in the first year of the agreement's implementation. In the current WTO negotiation, EU export subsidies as well as tariff peaks face strong opposition from other WTO members. This may result in considerable changes in these sections of EU agricultural policy, which may spill over into the reformed CAP regulations.

2. Possible effects on the Kyoto commitments.

The effects of the 2003 reforms on the EU's Kyoto commitments are difficult to detect, as the linkages are mostly indirect. The report notes that greenhouse gas mitigation is not a formal aim of the CAP, but that several existing and envisaged policies may have an impact in practice and that the principle of integrating environmental concerns into the CAP is now firmly established.

A positive measure is the aid for energy crops of 45 €/ha up to a maximum guaranteed area of 1.5 Mio. ha. in the EU. In addition, the dispensation to produce energy crops on set-aside land will be maintained. This will not be subject to an area limitation but will not qualify for the aid payable for energy crops. For energy crops which can also be used as food crops a contract has to be concluded in advance to qualify for either of the two options. However, plants like miscanthus and short rotation coppice can be produced on set-aside land without a contract.

There are also some agri-environment measures which have a clear positive effect on mitigation of GHG emissions. Many land use changes will be more strictly controlled via cross compliance from 2005 onwards. There are incentives to maintain the total grassland area within member states and regions, but reallocation and thus ploughing of grassland remains possible. The maintenance of existing grassland is not strictly fixed, as its share compared to arable land might decrease by up to 10%. Furthermore, in the case of the single farm payment paid on a historical basis some permanent pasture is likely to remain without payment rights and will not appear in the grassland statistics in the beginning of the new implementation period. Therefore, such grassland can be used to fulfil national obligations to maintain total grassland area if permanent grassland registered is moved to other uses e.g. arable, built-up area etc.

The implications of the 2003 CAP reform for animal numbers in the EU are unclear. It appears likely that, due to the – at least partial – decoupling of support animal numbers may decline. This effect may be limited however as in several Member States several of the livestock premia remain coupled.

Several Pillar Two measures can have a positive effect on GHG mitigation. These include, for example, support for reduced tillage, efficient slurry application techniques, investments in animal housing, and organic farming. This is only a selection but it also shows that several, sometimes competing aims, may be served by a Pillar Two measure. In some cases, a measure is clearly positive with regards to GHG mitigation and in others it may have negative implications. Investments in animal housing can demonstrate this. New installations often include advanced techniques which reduce ammonia emissions but can also cement a shift from grazing and straw-based animal housing to a slatted floor permanent housing system. The report notes that such aspects will be discussed in detail in a later stage of the MEACAP project.