



**Group of the Progressive Alliance of
Socialists & Democrats
in the European Parliament**

European Parliament
Rue Wiertz 60
B-1047 Brussels
T +32 2 284 2111
F +32 2 230 6664
www.socialistsanddemocrats.eu

Brussels, 2 March 2010

A NEW CAP
Beyond 2013 and for a longer view

1. Introduction

The debate on the future of the common agricultural policy (CAP) beyond 2013 is well under way. All those closely or even remotely associated with this policy are taking part in the debate. After a brief running-in period, the newly elected EP is now ready to assume its new responsibilities resulting from the entry into force of the Treaty of Lisbon, namely the role of co-legislator with the Council on the CAP.

A new and fundamental democratic legitimacy is born.

The Barroso II Commission is also in place and discussions on the CAP's future architecture can now proceed on firmer bases between the three main institutions of the Union.

The Group of the Progressive Alliance of Socialists and Democrats must promptly define the main lines of the new agricultural policy that it proposes for the future, and it must publicise these before the Commission issues its communication, which is planned for the second half of the year. The Committee on Agriculture and Rural Development (COMAGRI) is already preparing an initial own-initiative report on this subject.

The common agricultural policy (CAP) has punctuated the story of integration since the start of the European project in 1957. Following its creation, and for a quarter of a century, this common policy developed in extraordinary fashion: it enabled the ancestral need for food self-sufficiency to be met; it contributed decisively to the modernisation of agricultural structures, with spectacular growth in productivity; and it ensured sufficient income for farmers and reasonable prices for consumers. Its competitiveness on international markets made it one of the key players: the European Union is currently the leading exporter and the leading importer of agricultural products on a global scale.

Due to a lack of reform in time, this period of prosperity was followed, from the 1980s, by a period of crisis, characterised by structural production surpluses. The accumulation of huge

surplus stocks in the three main sectors of cereals, beef and dairy products, with the resulting explosion in agricultural expenditure, not to mention the distortions caused by the export subsidies used on the international market to clear these stocks, put the **CAP in the dock**.

2. Assessment of the reformed CAP since 1992: merits and limits

During the course of the reforms begun in 1992, the CAP changed considerably. The general direction followed was correct, as the major production imbalances were eliminated and tensions between the EU and its trading partners were largely resolved.

The key element in the 1992 Mac Sharry reform was the transition from the price support system (products) to compensatory aid (direct subsidies to producers), together with three accompanying measures. This was the first stage in the CAP's redirection and the first step towards the decoupling of aid from production volumes. It also represented the beginning of a rural development policy. With Agenda 2000, this process was reinforced by defining a more coherent framework for the rural development strand, known as the second pillar, as also for the first pillar, covering direct subsidies and market measures.

The 2003 reform allowed direct subsidies to be decoupled, thereby protecting them from WTO disputes. Measures were adopted aimed at improving the impact of agricultural practices on the environment, by introducing environmental cross-compliance, increasing the second pillar budget and taking account of consumers' concern about the health and safety of products. The 'Health Check 2008' allowed certain aspects to be adjusted, while at the same time reinforcing the pursuit of the 2003 reform objectives (capping and modulation of subsidies, risk management, new challenges, Article 68, etc.).

Aside from some specific criticisms of certain aspects of the CAP reforms carried out in the last two decades, **there are two basic reasons for a New Start** in the agricultural policy:

- **the first** concerns the radical change in the EU's internal context and in the international context, and the emergence of new concerns and challenges facing the CAP: climate change, water management, renewable energy, biodiversity, soil erosion, etc.;
- **the second** relates to the principle of cohesion. Apart from perhaps the payments granted to less-favoured regions, the CAP – despite the reforms – has never managed to reduce disparities in the agricultural area. In short, the principle of economic, social and territorial cohesion, which has been enshrined in the Treaties since the Single European Act of 1986, has never been included within the objectives of the CAP. The largest holdings, which are also generally the most competitive and efficient, continue to receive the most support (direct payment calculated on the basis of the historical pre-reform yield).

It is difficult to defend the legitimacy of such an unfair allocation of public resources (80% of the budget to 20% of the farmers). The EU, in the future, must ensure more convergence between the two policies that absorb three-quarters of its budget. On the one hand, it is quite rightly rolling out a regional and cohesion policy to reduce development disparities within the EU and within each of the Member States, and yet, on the other hand, it is continuing with an agricultural policy that is not heading at all in the same direction. There urgently needs to be coherence between these two fundamental common policies.

Finally, another significant element for the Progressive family is that the majority of the direct subsidies do little to encourage work and job creation, and a great deal to enhance the value of land and other assets. However, **in our opinion, the granting of aid must absolutely be linked to jobcreation in rural areas** in order to maintain, bring to life and develop the agricultural area in all regions of Europe.

3. A New Start to tackle New Challenges

In setting out to define a new architecture for the oldest of the common policies, the CAP, we must not make any errors in the diagnosis. The correct diagnosis has to be based on the concrete reality of agriculture in the European Union today with 27 Member States, and perhaps tomorrow with over 30. It must be based on the expectations and demands of society, on the new food, climate and environmental challenges, and on the international context that is now radically different (globalisation) with the emergence of new global players.

The change in context and the emergence of new expectations within society call for an in-depth reform. That firstly means reviewing the objectives and fundamental principles of the CAP. A new conceptual framework is needed: instruments must be better focused on objectives; priority must be given to expenditure that is more socially useful, such as financing of public goods made available to society; and handouts (direct subsidies) must be replaced with measures encouraging those involved to take account of the new requirements (new contractual approaches). Public subsidies should be given to farmers in return for their provision of environmental services and landscape management.

Such a CAP will only see the light of day if at the same time we commit to a comprehensive review of current subsidies, to ensure more **legitimacy**, **fairness** and **efficiency** in terms of the direction of public policy.

The current CAP creates major disparities between the net financial balances of the various Member States. We know that, on this very sensitive and highly political subject, on which **the taboo needs to be lifted**, the battle will not be easy and, as in the past, the Heads of State or Government of the 27 will in all likelihood have to decide the matter.

As a reminder, paragraph 24 of the conclusions of the European Council of 10 and 11 December 2009 states: ‘The European Council recalls the objective to carry out a comprehensive budget review covering all aspects of EU spending and resources. The European Council invites the Commission to come forward with a report in order to provide orientations on priorities during 2010. The European Council looks forward to the presentation by the Commission of its proposal for the next multiannual financial framework at the latest by July 2011.’

We know what this means. In the draft document last November on ‘**the budget review**’ (test of public opinion that was subsequently withdrawn), the Commission told us of its intentions.

The risk that we must avoid at all costs is that, when the negotiations on the next financial perspective begin – and we know that they will run in parallel with the negotiations on the CAP reform – the decision on the volume of resources to be allocated to this policy for coming years precedes the reform itself. We must firstly decide on the shape of the new CAP and only then set the amount of resources to be allocated to it.

4. The CAP beyond 2013

The CAP is currently at a crossroads. For tomorrow, we want a strong agricultural policy with a framework of basic rules decided at EU level. Agriculture remains a strategic sector and cannot be considered as being an economic sector like any other. The primary function of agriculture is to feed the population.

We are against any form of renationalisation and/or cofinancing.

This new policy must be based on the triptych of *legitimacy/fairness/efficiency*: *legitimacy* of the public resources committed and accepted by taxpayers; *fairness* in the allocation of European funds between the 27 Member States, within each country, and among the farmers and regions; and *efficiency* in the correct use of public funds, solidarity being, in our view, one of the basic values of the EU.

This new CAP must therefore be fundamentally reshaped to serve all 500 million European citizens and to make the most of agriculture in each country. It must, as a priority, pursue a food objective in terms of both quality and quantity. It must also encourage new forms of sustainable agricultural production throughout the EU territory and be capable of responding to the main environmental challenges (climate change/depletion of resources/water pollution/soil erosion/etc.). Finally, the CAP must ensure a social dimension and cooperate with regional development to create jobs in rural areas.

European agriculture must remain competitive internationally if it is to fend off external competition. It is important, however, to strongly reaffirm that the full liberalisation of trade in agriculture (OMC) is not compatible with the objectives of food security, protection of the environment, climate change mitigation. The Union should no longer use export subsidies for agricultural products and should redefine its cooperation policy in order to help poor countries to reach a reasonable level of food independence.

This new ‘agricultural, food and environmental policy’ firstly requires more overall coherence. The first pillar (markets and direct subsidies) essentially remains an instrument almost exclusively providing income support, decoupled from production and conditional on a few environmental, public health or animal welfare criteria. Its legitimacy is clearly disputed. The second pillar (rural development), which is much smaller in terms of budget, no longer makes any real sense, particularly with the changes made by the ‘Health Check’ and its Article 68.

Initially designed to finance structural actions in rural areas, it has gradually become an indirect production subsidy in problem areas with specific environmental issues. It involves a real ‘hotchpotch’ of measures intended to meet the specific demands of Member States, rather than respond to the real imperatives of an ambitious and coherent CAP.

Ambition and coherence should lead us to explore the idea of consolidating the politics of the two current pillars *into a **Single Structured Framework of European Rules** for allocating subsidies to farmers on the basis of criteria accepted by society and our international trading partners*. This would achieve a double political objective: internally, it would ensure legitimacy in the use of public funds, since these resources would be used both to reduce the impact of negative external factors (greenhouse gas emissions, water pollution, soil erosion, etc.) and to finance the public goods made available to society; internationally, and particularly within the

WTO, this aid would no longer be open to attack and would put the European Union in a position of strength for the conclusion of the Doha Round negotiations.

This new structured framework of European rules would allow greater transparency and greater simplification of the administrative procedures for farmers' access to European subsidies. In short, all the subsidies for farming should remain in the new CAP's subsidy scheme. This new model would also allow a framework of stable rules to be established in the medium and long term so farmers could plan their investments in full knowledge of the facts.

Finally, all the measures, currently existing in the second pillar that cannot be transferred into the new subsidy scheme, should be guaranteed to farmers in a more coherent way, articulated around the regional and cohesion policy. That is why it is so important to ensure the coherence of the reforms of these two policies within our Group.

The main challenge for tomorrow is to ensure that European agriculture moves towards more sustainable production models, through energy savings, reduced use of chemical and plant health products, better use of the potential of ecosystems, more biodiversity, more animal welfare and a wider range of production, services and public goods. This drastic change, which is synonymous with a change in paradigm, should also assist the dimension of job creation, particularly of green jobs, and should encourage the setting up of young farmers in all agricultural activities, whether traditional or new, and whether situated upstream or downstream of the production of agricultural raw materials.

For this new CAP, sufficiently ambitious budgetary means must be ensured for after 2013, and we should also consider new "carbon credit" instruments, because agriculture holds enormous potential in terms of combating climate change.

4.1 The CAP model proposed by the Socialists and Democrats:

- a) An Integrated Contractual Payment Scheme on a voluntary basis;**
- b) A Regulation System for the management of risks and crises;**
- c) An Aid Scheme for structural measures..**

4.1.a) An Integrated Contractual Payment Scheme on a voluntary basis

Subsidies to farmers should be allocated per hectare, based on a model which could be articulated on three levels:

- First level: basic payment – this would involve a basic payment per hectare of cultivated land under certain conditions. This payment would be granted to all holdings that agree to conclude a management and maintenance contract for the agricultural area, with a maximum ceiling to be defined. It is therefore a decoupled and conditional payment.

- Second level: payment linked to natural handicaps – this system would give higher payments to regions affected by one or more natural handicaps. These payments could be coupled to an agricultural activity so that production and environmental services together become sources of income for the farmer.

- Third level: green point payment or payment for environmentally sensitive regions – this would involve special contracts covering certain environmental services, such as extensive grazing, areas rich in biodiversity, organic farming, PDO and PGI production methods, landscape conservation, wasteland and fallow land.

This would be a voluntary contractual scheme that would make farmers responsible, with their payments being granted in exchange for providing certain services. This proposal also raises the issue of decoupling subsidies from land. The idea is that subsidies go to the farmer, who is not always the owner of the land that he cultivates. Such a system quite clearly requires the definition of zoning for the rural area, and the rules to set this up must be defined at EU level.

This model is inspired by discussions developed in certain academic circles, particularly Jacques Delors's Notre Europe foundation.

4.1.b)-A Regulation system for the management of risks and crises

To cope with the unforeseen events traditionally faced by farmers, particularly the volatility of agricultural product prices in an internal market increasingly open to the outside world (WTO), extreme climate conditions (drought, fires, floods) and the spreading of animal diseases (BSE, dioxin crisis, swine fever, etc.), a regulation system should be provided that guarantees a security net to farmers.

There is a wide assortment of tools that could be used for this: intervention prices, storage, insurance, a system of food aid (on the lines of the *food stamps programme* of the US Farm Bill) for the most deprived sectors of the European population, the creation of a public/private market stabilisation fund. Lastly, the idea of contractualisation within the food chain supply system to achieve fairer distribution of added value between the producer, agro-industry and the distribution chain can also be foreseen. All these instruments could be used, individually or combined, to cope with unforeseen crisis within the different agricultural sectors.

4.1.c) an aid scheme for structural measures..

All the measures currently in the second pillar that cannot be transferred to the new subsidy scheme – such as aid for setting up young farmers, vocational training, early retirement, investment in agricultural holdings and investment aimed at the diversification of economic activities in rural areas – must be guaranteed to farmers in a more coherent way with regional and cohesion policy.

5. Conclusions

By chance or than by conscious decision, the reform of the CAP from 1992 to date has occurred in parallel with the successive reforms of the Treaties: 1992 Mac Sharry reform (Maastricht); Agenda 2000 (Nice); 2003 reform (Constitutional Treaty); Health Check 2008 (Lisbon).

This could be called the ‘one step at a time while maintaining the original philosophy’ approach, as the articles of the successive Treaties on the CAP have remained unchanged since 1957.

In a radically different internal and international context, this overly timid approach and conservative in many aspects is the main reason of the negative perception that remains in the minds of a significant part of the European public with regard to the CAP.

We must reaffirm the importance of the role of European farmers and the need for a strong common agricultural policy for the future, capable of tackling the new challenges, and propose a new, ambitious and transparent project. We need a New Deal between the agricultural world, industry upstream and downstream of the sector, research and development, and citizens – who are both taxpayers and consumers – to ensure a shared society. This is particularly required today, in this period where the deep economic crisis creates a strong feeling of anxiety and uncertainty.

Among the numerous political divisions that have always clearly shown the differences between *progressives and conservatives*, there is one that persists. In general, the former are those who anticipate and guide ambitious reform processes, whereas the latter only tackle the issues when forced to do so by the emergence of crises or external constraints.

The reform of the CAP over the last 15 years has generally followed this second path.

We believe that the time has come to take back control and play our part as pioneers, by proposing an ambitious agricultural agenda for the coming decades.