



European  
Commission



# EU agriculture spending focused on results

September 2015

*Agriculture  
and Rural  
Development*



# Introduction

## FACT:

*Approximately 38% of the EU budget (equivalent to 0.4% of the Union's GDP) is spent on agriculture and rural development. This pooling of resources at EU level ensures efficient and effective spending that avoids distorting the internal market and delivers a wide range of public goods. It is much more efficient to have one common policy achieving common goals such as food security than 28 different competing national policies, and this efficiency frees up funds in national budgets to be spent elsewhere.*

The Juncker Commission has identified [10 key priorities](#) for its 5-year mandate, aiming amongst other things at boosting investments, growth and job creation, combating climate change, relaunching the Digital Single Market and concluding trade deals, notably with the US. The Common Agricultural Policy (CAP) has a key role to play in delivering on all of these priorities. In fact, the fundamental objectives of the CAP – the viable production of food, the sustainable management of our natural resources, and maintaining a living countryside – mirror the Juncker priorities. This brochure outlines how a performance-oriented CAP is already delivering tangible results to the benefit of European citizens and tax-payers.

Today's CAP is not that of our history books. It's a market-oriented policy under which the butter mountains and wine lakes are gone and where export subsidies are no longer used. Production quotas are going (sugar in 2017) or already gone (milk). The vast majority of subsidies have been decoupled from production, meaning that they don't distort the market. All this has allowed our farm businesses to respond to market opportunities at home and abroad—with a positive effect on the EU trade balance. In short, thanks to a series of reforms, the CAP is fit for the 21st century and the EU farm sector is open for business.

In short, the CAP budget is spent as follows:

**Direct payments** – farmers receive annual payments to help stabilise farm revenues in the face of volatile

market prices, unpredictable weather conditions and variable input costs. To benefit from these payments, farmers must respect rules and practices concerning environmental standards, animal welfare, food safety and traceability. Many of these requirements are stricter than those facing our global competitors. This is also what EU consumers and taxpayers want from the CAP. To avoid distorting markets, payments are not based on how much a farmer produces, but on how much land he uses and how he uses it.

**Rural development programmes** provide co-funding for projects with economic, environmental or social objectives, primarily targeting farms and SMEs in rural areas. The budget is spent via tailor-made plans designed nationally or regionally to match local challenges and opportunities. Spending is linked to a performance framework with target indicators and monitoring, which effectively requires Member States and regions to deliver clearly defined results in order to keep the full budget allocation. On top of the additional public funding from national and regional administrations, rural development programmes also raise significant amounts of private capital, in particular for investments related to business development.

**Market measures** – *ad hoc* measures linked to specific market situations, as well as support for trade promotion, the school milk and fruit schemes, and producer organisations, which help farmers get a better deal when negotiating prices and conditions with processors and supermarkets.



### How CAP performance is measured

The newly established Common Monitoring & Evaluation Framework will provide, for the first time, key information on the performance and policy implementation of the CAP as a whole. Through work with Member States, common impact indicators and more specific result and output indicators have been identified. On this basis, the Commission will present annual reports on the performance of the CAP, the first report being due in 2018. Until then, such information will continue to feed ongoing policy assessment and the insights which emerge will be used in the DG AGRI Annual Activity Reports (AARs).

For example, the performance of rural development programmes is assessed like this:



As the only EU policy which is fully integrated and funded primarily by the EU budget, the CAP also works as a catalyst, delivering results in areas related to other policies. It finances actions that deliver on objectives related to the environment, climate action, food safety, health, research and innovation, and energy. It has helped put EU farm businesses in a position to pursue new opportunities, for example through innovation or ambitious export interests in trade negotiations, and it has built a framework for developing a strong agri-food sector which can be a model for partners in the developing world. The CAP also complements investments under other EU funds (such as regional development, employment and fisheries). For example, large-scale structural investments made for Structural Fund projects are sometimes complemented by rural development support to help nurture rural SMEs. Both aspects are needed if the Commission’s jobs and growth agenda is to be achieved in all corners of the Union.

*Example: The structural investment in the **Alqueva Dam** in south-east Portugal has provided a massive boost to a previously weak economic region, enabling farmers to change from low-yielding cereals in poorly irrigated fields to more diversified production with much higher returns per hectare. Moreover, the reservoir and improved infrastructure has provided an enormous boost to water sports, rural tourism and the wider rural economy. In this context, Rural Development funds have provided support to enable more than 500 farmers to tap into the new irrigation facilities, as well as helping other SMEs to make the necessary investment to respond to the new opportunities – creating further jobs upstream and downstream in the food chain, but also in non-food related activities.*

**Sound budget management** –The CAP budget of 58 billion EURO a year is managed rigorously, with clear eligibility criteria and regular checks applied and carried out by Member States. National audits are verified by Commission auditors and the **conformity clearance** procedure allows the Commission to claw back funds if the management and control of CAP spending by Member States is deemed to be inadequate. The new **CAP transparency** rules, which were adopted in 2013, require the publication of all beneficiaries together with detailed information on the purpose of the support granted.

## Jobs & growth and the competitiveness of the food & farming sector

Given the importance of food security and growing societal concerns about how our food is produced, direct payments provide a vital degree of stability to farm revenues, enabling farm businesses to respond to market signals while farming to the high standards which consumers expect. This (relative) predictability is positive not just for farmers but also for the whole EU food sector, which is the largest employment sector in the EU – providing [47 million jobs](#) (and 7% of GDP), many of which are located in poorer regions. Figures show that the income gap between agriculture and the overall average income has diminished in recent years, but remains significant.

**Relative situation of farm income compared to non-agricultural**



40 %



100 %

The figures are the EU average of entrepreneurial income in agriculture per non-salaried annual work unit as a percentage of average wages in the total economy per full-time equivalent.

Source: European Commission.

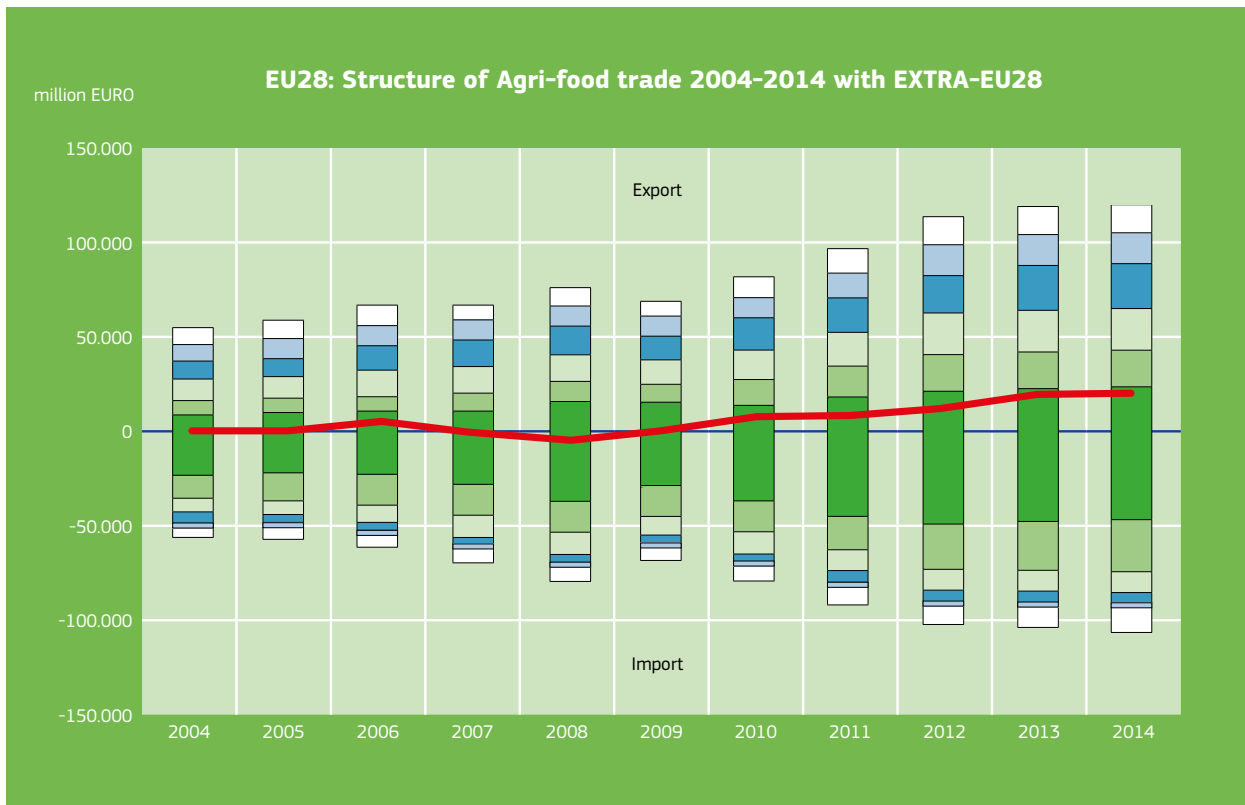
On-farm investment through rural development programmes has helped improve competitiveness and the sector's production potential, also attracting other public and private investment. Figures for 2007-2013 show that 8.7 billion EURO of EU funds was spent supporting the modernisation of 380 000 farms which in turn raised another 25 billion EURO in private investment. The improvements achieved in the farm sector have positive knock-on effects in the food industry.

*Seeking to develop its market, a Bulgarian soft fruit company received a rural development grant of 160 000 EURO towards modernising its plant. As a result, the company's productivity jumped by 50% in the first six months. This and better quality led to higher profits.*

For the period 2014-2020, some 365 000 farmers can expect to receive investment aid to restructure and modernise their farms. During this period a total of 22.6 billion EURO from the Rural Development Fund (EAFRD) will be earmarked for investment in the rural economy which will raise an injection of 42 billion EURO into rural areas. In addition to this, further private capital will be raised as was the case in 2007-2013. Furthermore, Member States can use their rural development allocations to develop financial instruments such as loans (working with the European Investment Bank), guarantees and equity. Using such financial products to fund investments in farms, infrastructure and innovation projects increases even further the leverage of rural development funding.

*In Ireland, the value of food exports rose by 45% from 2009 to 2014, relative to an average 4% increase across the economy, creating many new jobs upstream and downstream and playing a major role in Ireland's economic recovery. The agri-food sector now accounts for 8.4% of employment in Ireland.*





- Commodities
- Other primary
- Processed (incl.wine)
- Food preparations
- Beverages
- Non-edible

### Trade – Agri-food sector is a driving force towards economic recovery

The CAP’s move towards more market orientation has helped the EU agricultural sector become more competitive and more responsive to new market opportunities driven by increasing world demand. Since 2009, the EU has become a net exporter of food & drink, with the value of EU agri-food exports rising to an estimated 122 billion EURO a year, following a steady annual growth of 8.6% over the last 10 years, with a strong increase in primary and processed products and more complex food preparations.

This variety of exports reflects the diversity of European agriculture and the attractiveness of its safe and high-quality production.

Successive reforms of the CAP have created the basis for competitive **agricultural production**, fully in line with WTO requirements. And the EU agricultural sector now has significant interests in ongoing bilateral trade relations, for instance with Japan and the USA.

#### Mitigating the impact of the Russian food ban

The closure of the Russian export market for dairy, meat, and fruit & vegetable products saw the overnight closure of a market which accounted for up to one third of EU exports of those products. A series of short-term market measures helped cushion the immediate impact of the ban, and the provision of direct payments helped stabilise losses. Now, 12 months after the ban was introduced, even if problems remain in some regions which were particularly dependent on exports to the Russian market, most producers have been able to find alternative markets at home and abroad (notably in Asia), or adjust their production, and the overall value of EU agri-food exports in the first 8 months since August 2014 has in fact risen by 5% despite the loss of the Russian market.

#### Invest Locally, Sell Globally

HF launched his chocolate business in 1999 a small town in the Belgian region of Hainaut. In 2008 he received 47 000 EURO from rural development funds and raised another 199 000 EURO himself to expand his production facilities. A year later, the new plant was in place and production tripled in a few years. Today his company delivers to Poland, Scotland and France and has developed a specific line of Kosher products for the Israeli market.

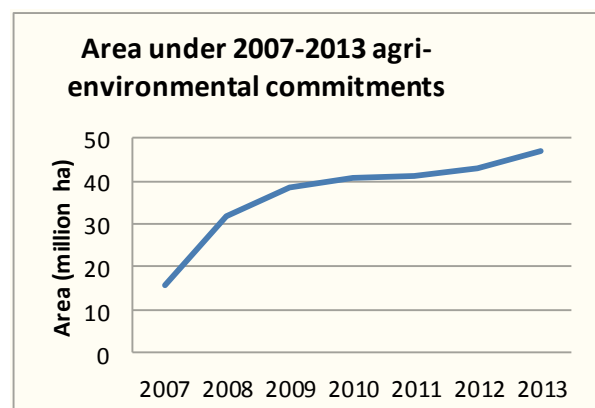


## Addressing sustainability & climate change - supporting a knowledge-based sector

About half of the EU's territory is farmed. Therefore, agriculture is an essential element when it comes to preserving our natural resources and both mitigating and adapting to climate change. Declining soil quality, water scarcity, biodiversity loss & fluctuating energy costs are all challenges which threaten the EU's food production capacity for the future, exacerbated by climate change. In order to address the forecast rise in world food demand, we not only have to produce more, but we also have to take better care of our natural resources.





*Using RD funds to develop its business and expand production capacity, a dairy cooperative in North-West Denmark has become synonymous with high quality organic dairy products on the Danish market. It is also exporting increasing amounts notably on the internal market. With an annual turnover exceeding 100 million EURO, this rural enterprise now employs more than 150 people in a region where there are otherwise few employment opportunities.*

Through the direct payments system and rural development programmes, EU agriculture policy has already taken significant steps to face this fundamental challenge of “**producing more with less**”, whilst mitigating the effects of climate change. The former ties EU support to the respect of environmental and animal welfare standards, and the latter provides the framework for tailor-made, targeted action directly addressing environmental and climate-related needs. In the 2007-2013 period, some 23 billion EURO of EU funds was spent on agri-environment measures covering 46.9 million hectares – that's equivalent to more than 25 % of the total EU Utilised Agricultural Area.



From 2015 onwards roughly 12 billion EURO a year are reserved within the direct payments system for certain practices aimed at addressing biodiversity loss, avoiding crop monoculture and securing carbon sequestration («**greening**»). In addition, through rural development programmes, spending on **agri-environmental measures** from 2014-2020 is forecast to rise to 25 billion EURO. It will cover a somewhat smaller area, but thereby increase the environmental performance for every euro invested. At the same time, just under 11 million hectares will receive support for organic farming. This is a plus for the environment, but it also helps develop a sector in which the EU has the potential to become the global market leader.

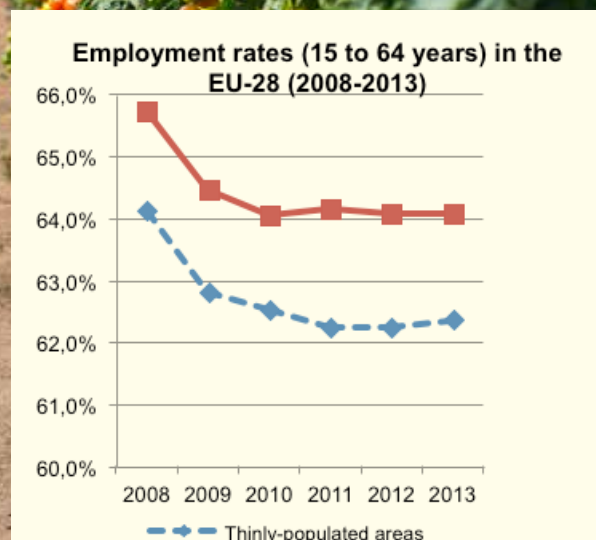
### Green Rural Development targets 2014-2020

-  19% of EU farmland under biodiversity management contract
-  15% of EU farmland under soil management contract
-  15% of EU farmland under better water management contract
-  7% of EU farmland under contract to reduce GHG or Ammonia
-  2% of livestock units (equivalent of 3 million pigs) concerned by climate investments

EU agriculture policy is also the bridge that helps bring EU-funded research out of the labs and into the real economy. Through the **European Innovation Partnership** (EIP-AGRI), rural development funds support practical innovation projects that bring research and innovation onto the ground and onto the market. This gives a general boost to the farm sector, but upstream and downstream businesses also benefit from the development of new products, practices and technologies. During the period 2014-2020, more than 2 000 EIP innovation projects are expected at a cost of around 1 billion EURO. The results of these projects will be spread to farmers across the EU via the EIP-AGRI network as well as other EAFRD-funded knowledge transfer activities such as the 3.6 million planned places on training courses targeting farmers and other rural entrepreneurs. The EIP-AGRI also links up to projects in other policy areas such as regional policy, thereby multiplying the effect of the knowledge developed with support from other EU funds.

#### *Innovation project: Upcycling waste*

*Funded with 67 000 EURO from the EU budget, a Spanish organic olive cooperative has developed an innovative composting technique which turns the polluting by-product (olive cake) into green fertilizer. The project has led to the elimination of nitrate pollution in aquifers - and the use of compost next to green cover zones, which minimises erosive processes and contributes to soil improvement on olive farms. In addition, it delivers an economic benefit to the region's farmers, as well as a positive climate effect, as it reduces the use of chemical fertilisers. The tested technique can now be readily applied in other areas.*



## The CAP and its societal benefits

The importance of agriculture for society extends beyond its role as a source of primary production. Even though the agricultural sector accounts for only 1.7% of Gross Value Added in the EU, farmers are responsible for the delivery of public goods on half of the EU's territory and they deliver healthy, affordable food to all of the EU's 500 million consumers.

In addition to these basic needs, the CAP also acts in a wide range of ways to increase the quality of life in rural areas and reduce the gap between rural and urban regions. One example is the fact that the employment rate in rural areas has always stayed at a lower level than the overall EU trend. Rural development policy is investing heavily to improve this situation. For example, in the context of the Digital Single Market, the 2007-2013 rural development programmes already invested 337 million EURO in broadband coverage for rural areas. In the current period another 1.6 billion EURO will be invested, rolling out broadband to an estimated 27 million people, covering black holes, many of them in remote areas. This is a massive support for helping

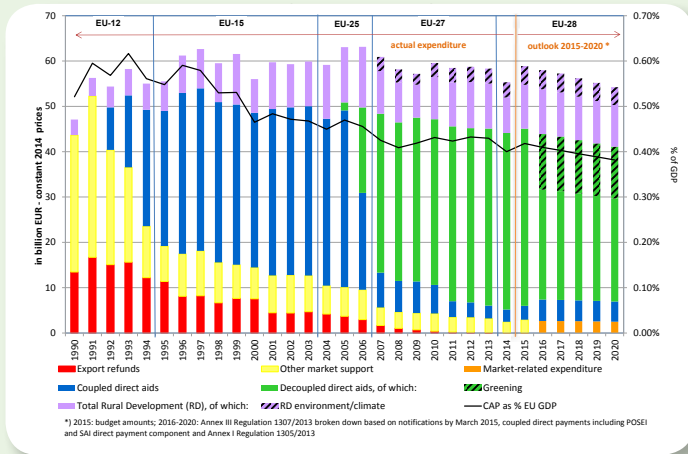
SMEs establish themselves in rural areas. In addition to this, rural development programmes will support the setting-up and development of some 58 000 rural SMEs over the next seven years, many (but not all) of them linked to agriculture.

No other EU policy has the reach of the CAP when it comes to delivering rural growth and jobs. It provides the right environment for private investments whilst preserving our cultural heritage and it helps ensure that rural areas remain attractive places to visit and—even more importantly—to live in.

### *Contributing to the quality of life in rural areas*

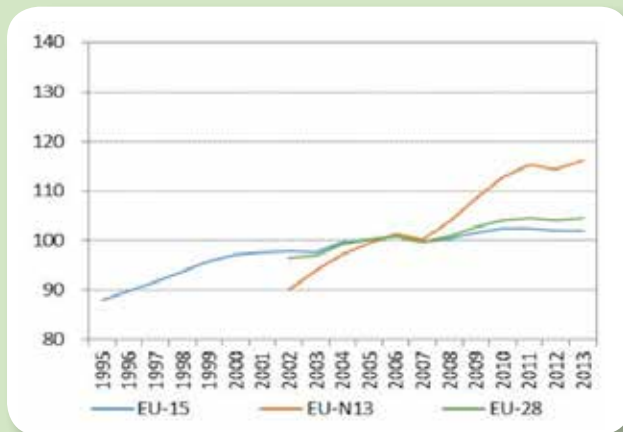
*A couple in the Netherlands who were struggling with the commercial viability of their dairy farm recognised a demand for child day-care facilities that could offer something special for kids from nearby urban areas. Equipped with a 44 000 EURO grant from EU funds and another 67 500 EURO from other public funds, the family managed to raise 862 500 EURO in private capital, creating a leverage effect of 21 from the EAFRD budget. In addition to satisfying demand for child-care facilities, the family created 28 new jobs and forged stronger rural-urban linkages.*

### CAP expenditure and CAP reform path



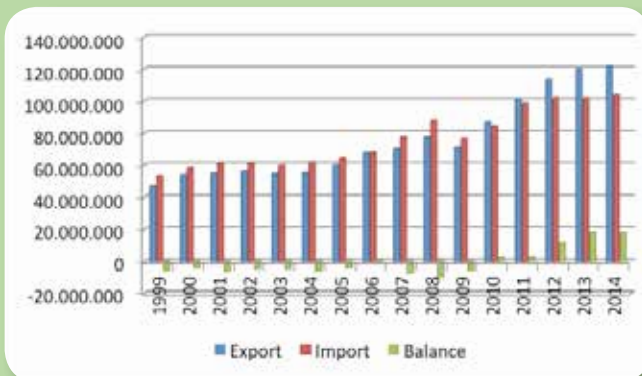
- More Member States
- Better targeted
- More market-oriented

### Change in Total Factor Productivity 1995-2013



- Higher productivity
- Improved structures
- More efficient

### Value of Trade in EU Agri-Food products 1999-2014 (in million EURO)



- Increased Value
- Greater focus on added-value
- Positive Trade Balance