Agriculture and Enlargement

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The Common Agricultural Policy – moving with the times

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Overview

- The CAP: a continued reform process
- The cumulated effects of the various reforms
- What about the future?
The CAP: a continued reform process

- **MacSharry reform in 1992** (cuts in support price + full compensation for loss of income)

- **Agenda 2000** (further price cuts - setting up the 2nd pillar)

- **CAP Reform in 2003 – followed by 2004-2008 sectoral reforms** - (decoupled direct payments, cross-compliance, modulation, more market-orientation)

- **Health-Check in 2008** (simplifies and better targets direct payments, increases market orientation, strengthens Rural Development)

- **Post-2013** – debate on-going
Main drivers

– Reduce surplus production
– Control expenditure
– Maintain rural population
– Address societal concerns (food safety, environment, animal welfare)
– Enhance market orientation
– Improve competition on the world market
MacSharry Reform, 1992

Objectives:
- Improve competitiveness
- Stabilise markets, income and expenditure
- Diversify production
- Protect the environment

Measures taken:
- Price cuts
- Compulsory set-aside - Full compensation for loss of income
- Accompanying measures (agri-environment programmes, afforestation, early retirement, diversification)
Agenda 2000

Objectives:
- Improve competitiveness
- Rural Development Policy
- Facilitate the enlargement of the EU

Measures taken:
- Further price cuts (beef -20%, cereals -15%)
- Partial compensations = direct payments
- A comprehensive RD policy
- Ceiling on agricultural expenditure
CAP Reform 2003 - Objectives and measures

- Adjustment of intervention levels
- Decoupling of direct payments
- Cross-compliance
- Strengthening the 2nd pillar
- Degressivity Modulation

- Reinforcing farmers’ market orientation and entrepreneurial role
- Improving the transfer-efficiency of direct payments
- Enforcing standards (environment, food safety, animal welfare)
- Better balance of support
- Consolidation of the CAP within strict limits of financial discipline
CAP Reform 2003: Complementary Reforms

- **2004: cotton, hops, tobacco, and olive oil**
  - Continues the approach of reducing support prices by replacing them with decoupled direct payments

- **2005: sugar**
  - Price cut (white sugar -36% over 4 years), partial compensation through decoupled payments (64% of the price cut)
CAP Reform 2003: Complementary Reforms

- **2007: Fruits and Vegetables**
  - integration of F&V into the Single Payment Scheme, wide range of tools for crisis management for Producer Organisations, promotion of consumption.

- **2007: Wine**
  - Phasing-out expensive market intervention measures and allowing the budget to be used for more positive, proactive measures which will boost the competitiveness of European wines.
CAP Health Check, 2008

- **Simplifies and better targets direct support to farmers:** more flexibility for MS to re-orientate direct support, assistance to sectors with special problems (Art. 68);

- **Responds to market opportunities and price crises by removing supply controls:** (phasing out milk quotas, abolition of set-aside, market management tools are streamlined and updated);

- **Strengthen Rural Development to respond to new challenges:** increase of modulation by 5% between 2009-2013 for climate change, renewable energy, water management, biodiversity, innovation
A consistent reform process

- Reform orientation reflects policy objectives
  - to be competitive in world markets and *simultaneously* meet the highest environmental, food safety, quality and animal welfare standards within dynamic sustainable rural economies

- Decisions of reform reflect clear political choice
  - continue support for EU agriculture (the “*not if but how*” question)
  - in a manner that meets citizen, taxpayer and consumer needs and expectations and that is the less trade-distorting
The effects

- 80% of the expenditure is now paid directly to farmers
- Farmers are now encouraged to produce in response to market incentives, not in response to support incentives
- Farmers are sanctioned if they do not respect strict standards regarding food safety, plant and animal health, environment, animal welfare (cross-compliance)
- Pillar 2 enhances the development of rural areas
The path of CAP reform and CAP expenditure

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CAP budget cost trend

![Graph showing CAP budget cost trend in billion € for EU-12, EU-15, and EU-27 for the years 1993, 2000, and 2010.]

- **Market measures**
- **Area/animal payments (coupled payments)**
- **Single Farm Payment (decoupled payments)**
Decreasing share of EU GDP
Agricultural income/AWU in deflated Euro
Agricultural income/AWU unit as % of total economy income/labour unit (deflated)
Reductions in EU price support ...

Cumulative % reduction in price support

...bringing EU prices in line with world prices
The evolving role of EU support prices - wheat

( in € per metric tonne )

Note: Years are marketing years. Sources: DG AGRI and Global Insight (IMF).
The evolving role of EU support prices - beef

( in € per metric tonne )


EU intervention price
EU market price
Argentina
The evolving role of EU support prices - butter

Note: Years are marketing years. Sources: DG AGRI and FAO.

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EU public stocks

(as % of EU production)

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Export refunds, billion € and % of agricultural expenditure and exports
EU27 Agricultural trade 1999 - 2007 in million € (Regime 4)

Source: COMEXT

Commodities  Intermediate  Final products  Trade Balance (E-I)

70% share
55% share

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Agricultural product: Import from Developing countries

(average 2004-2006 - billion US $)

Source: COMTRADE

% share of imports from DC's out of Total Imports (right axis)
World & EU27 Agricultural trade (1999 - 2007 in billion €) and EU27 share.

Source: COMTRADE

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%Share of World Exports (based on US$)

Source: COMTRADE

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The CAP – moving with the times, Zagreb, 12 June 2009

%Share of World Imports (based on US$)

Source: COMTRADE
Passing the stress test…
A sound policy in turbulent times…

Cereals market prices

Rice, 962.6 $/t, May 2008
Wheat HRW, 481.5 $/t, March 2008
Wheat SRW, 397.2 $/t, March 2008
Maize, 294.2 $/t, June 2008

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Looking ahead

The CAP should…

– leave room for farmers to be as market-orientated as possible;
– give farmers some kind of safety net;
– help farms to modernise;
– help to provide public goods;
– help to meet various challenges such as climate change;
– help to compete in a changing international environment.
With what structure and instruments?
The debate on post-2013 is open

- What improvements for the direct payment scheme? Is payment per hectare effective and efficient? Should distribution between MS be revised?
- Should the provisions of new Article 68 be maintained after 2013?
- What rural development policy? What arguments to maintain rural development policy within the CAP?
- The Commission will present a Communication in 2010 (in summer or early autumn)
- Legal proposals in mid-2011 together with Financial Perspective proposals
The CAP in one click

http://ec.europa.eu/agriculture/index_en.htm
Thank you for your attention!