Reform of the Common Agricultural Policy  
– what can be changed to make it support the EU sustainable development?

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Abstract

The European Union’s Common Agricultural Policy is considered to be the only truly common EU policy. It has already undergone numerous alterations and it is now about to be reformed once again. The challenges the EU agricultural policy faces are countless. Yet, the expectations have already been tempered by the European Commission’s communication published in November 2010 suggesting that there is little that is going to be changed.

Diversity of policy instruments with mutually contradictory goals and lack of clear vision of how to reconcile food security with environmental issues and social aspects of agricultural production and rural areas’ economy lead to an ineffective and inefficient policy. The CAP already encompasses social, economic and environmental policy instruments so it is the right policy to create a holistic EU-wide sustainability policy for more than 90% of the EU territory that is considered to be rural areas.

The paper is aimed at presenting the framework of transforming the Common Agricultural Policy into the Common Sustainable Agricultural and Rural Development Policy. It starts with description of key drawbacks of the current CAP. Next part is presents the European Commission’s proposal for reforming the CAP. In the third part it gives an outline of the challenges facing the EU agriculture and rural areas. Finally, it depicts the possible plan of turning the CAP into a policy well placed to targeting future challenges of sustainable development in the EU.

Key words: Common Agricultural Policy, European Union, agriculture, rural development, sustainable development.
Introduction

Currently every day brings new information about the unprecedented weather conditions in different parts of the world, diminishing natural resources and rising foodstuffs prices. These phenomena combined with the growing number of the world population as well as the current world economic and financial crisis make the need for introducing sustainable development’s principles to the global growth processes even more pressing.

For years the European Commission (EC) has been emphasizing the necessity of turning the EU growth processes onto the sustainable development path. All the recent EU strategy documents have included the concept of sustainable growth. The most vivid example is the successor of the Lisbon strategy – a new EU strategy “Europe 2020”. This documents calls for smart, inclusive and sustainable growth in the EU. In the part concerning sustainable development a strong emphasize on turning the agriculture to be an important pillar of sustainable management of natural resources.

The paper is aimed at presenting the framework of transforming the Common Agricultural Policy into the Common Sustainable Agricultural and Rural Development Policy. It starts with description of key drawbacks of the current CAP. Next part is presents the European Commission’s proposal for reforming the CAP. In the third part it gives an outline of the challenges facing the EU agriculture and rural areas. Finally, it depicts the possible plan of turning the CAP into a policy well placed to targeting future challenges of sustainable development in the EU.

Current CAP

The EU Common Agricultural Policy is one of the oldest parts of the Community’s activities. It is also considered to be the most common but the current trend to national and regional diversification in the variants of policy instruments (as in case of direct payments) or the choice of policy instruments to be applied (as in case of rural development programmes). The policy objectives of the CAP have not been altered since the Treaty of Rome. The article 33 of the Treaty Establishing the European Community stipulates them as follows:

a) “to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;

b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
c) to stabilise markets;
d) to assure the availability of supplies;
e) to ensure that supplies reach consumers at reasonable prices”.

The changes in the situation of the agricultural sector and the macroeconomic situation in the EU led to a number of reforms of the CAP. The most spectacular came in 1992 with the introduction if direct payments, followed by the one in 2003 marked by the decoupling of these payments.

Nowadays the CAP consists of two pillars. Pillar 1 is focused on current and direct support to the agricultural sector, whereas Pillar 2 is devoted to rural development based on structural changes in agricultural sector and diversification of rural areas’ economy. Also the financial side differs between the pillars. Pillar 1 instruments are financed solely by the EU and these within Pillar 2 are co-financed by the EU member states from their own budgets. Moreover, the EU CAP budget is divided not equally between the pillar. Pillar 1 receives approximately 70% and only 30% goes to Pillar 2.

Pillar 1 offers direct support within the single Common Market Organisation (CMO). The CMO was created in 2008 in order to simplify and unify the market support that had been up to that time organised within single product markets. Yet, every agricultural product included in the CMO has its own policy instruments.

Apart from the market support Pillar 1 of the CAP offers direct payments. This is the best known and the most discussed CAP instrument. Its implementation significantly varies from country to country. There are now two basic systems of direct payments: Single Area Payment Scheme (SAPS) and Single Payment Scheme (SPS). The first one – SAPS is a system applied by most of the new member states and the second one – SPS generally in the old member states. SAPS is based on a fixed rate per hectare of agriculturally utilized area. Therefore the total amount of the basic payment is the result of multiplying the payment rate by the number of hectares under agricultural use in a given agricultural holding. In the SPS the sums received are individually or regionally calculated based on the amounts of the direct payments received before the reform. This shows that the SAPS model is simpler and more

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cost effective. Moreover, the wide range of options and additional payments makes the system even more complicated.

In the current programming period rural development supported by the EU within Pillar 2 of the CAP is based on the Regulation (EC) No. 1698/2005. Rural development programmes that are at national and regional level (depending on the member states decision) are shaped around four axes combining a number of policy instruments. The first three of them are thematic axes, whereas the last one is a more horizontal axis based on a different management approach i.e. bottom-up. The focal points of the axes are:

- Axis 1. “Improving the competitiveness of the agricultural and forestry sector”
- Axis 2. “Improving the environment and the countryside”
- Axis 3. “The quality of life in rural areas and diversification of the rural economy”
- Axis 4. “Leader+”

National or regional authorities responsible for their rural development programme could chose the policy instruments most suitable for their developmental needs and allocate appropriate share of their total budget. However, the EU regulation put minimum share of each axis in the total EU financial support. These minima were:

- Axis 1. – 10%
- Axis 2. – 25%
- Axis 3. – 10%
- Axis 4. – 5% (for new member states 2,5% on average during the whole programming period).

With the new financial perspective also the CAP will be significantly changed. The reform will be based on the lessons learnt so far and the challenges facing the EU agriculture in the globalizing world. However, the current economic and financial crisis will probably have the strongest impact on the final shape of the CAP in the period 2014-2020, especially its scale.

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Common Agricultural Policy after 2013 in European Commission’s proposals

The Communication from the European Commission “The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future” published in late 2010 gave the first insight into the EU plans for a reform of the CAP that should be implemented as of 2014. This document identifies the challenges facing the EU and its agriculture. The following challenges are among these that are going to shape the conditions in which the EU agriculture will operate:

- rising concerns regarding the management of natural resources such as water, air, biodiversity and soil,
- food security concerns,
- climatic changes,
- need to reduce the emissions of greenhouse gases
- increasing globalisation,
- rising price volatility.

The European Commission (EC) states that “to be effective in addressing these challenges, the CAP needs to operate within the context of sound economic policies and sustainable public finances contributing to the achievement of the objectives of the Union”. There strategic aims are named in the EC’s communication:

- food security for European citizens;
- quality, value and diversity of food produced sustainably, in line with our environmental, water, animal health and welfare, plant health and public health requirements;
- creating local employment.

Moreover, reform of the CAP should continue to support such aims as:

- greater competitiveness,
- efficient use of taxpayer resources,
- effective public policy returns with regard to food security, the environment, climate change and social and territorial balance.

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The general objective for the CAP reform should be to build more sustainable, smarter and more inclusive growth for rural Europe. This is directly related to the EU strategy – “Europe 2020”. This strategy has three objectives:

1. Smart growth: developing an economy based on knowledge and innovation.
2. Sustainable growth: promoting a more resource efficient, greener and more competitive economy.
3. Inclusive growth: fostering a high-employment economy delivering social and territorial cohesion.

The strategy hardly mentions agriculture (it appears only once in the text) and says not much about rural development. Yet, a careful reader can read between the lines that in the Europe of smart, sustainable and inclusive growth the agriculture should play a vital role in achieving the “sustainable” component. There is a danger that the support for agriculture and rural areas would not include the instruments of “smart” and “inclusive” growth and thus the agriculture would not be capable of achieving a really sustainable development. These three growth components from the strategy “Europe 2020” must be carefully balanced individually for each of the EU policies and then, once again, for the whole EU. Only then could they be effective in making the EU capable of more achieving sustainable development.

In June 2011 the European Commission published its proposal concerning the next EU financial perspective. As for the agriculture it is planned to devote 386,8 milliard. Most of these financial resources would be spent on Pillar 1 reaching 281,8 milliard. These resources will be placed in the EU budget part “Sustainable development”. The Pillar 1 amounts to 73,6% of the resources envisaged for this budgetary part. Pillar 2 is to be given 89,7 milliard. These resources will be included in the EU budget part “Smart and inclusive growth”. The money for Pillar 2 will create only 36,2% the EU budget commitments for this part.

The EC proposal gives also some insights into the shape of the future CAP. It proposes to link 30% of direct payments with the fulfillment of special “greening” conditions. The level of direct payments in member states is to be gradually leveled. However, this is going to be done taking into account still present differences in payroll and costs of conducting agricultural activity. In the period 2014-2020 direct payments’ rates in the countries where they currently amount to less than 90% of the EU average 1/3 of the difference between the current rate and this average. Resources for this leveling are to come from reducing the rates

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in the countries where they are higher than the average. In 2013 this EU average is going to amount 269,1 euro/ha\(^6\). A revision of distribution criteria for the funds devoted to rural development and introducing more elasticity in applying instruments of both pillars are also planned.

**Needed changes – critical analysis of the EC’s proposals for the CAP reform**

The challenges facing the EU and its CAP policy are well identified and defined. However, in case of the CAP reform one would expect a more in-depth analysis. As for the choice of policy priorities the same opinion applies. There are also well chosen but the thing missing is a detailed presentation of the ways they are going to be achieved. Therefore the critical analysis in on one hand very easy and brief – lack of detailed information makes a thorough analysis impossible. Yet, on the other hand, the it is very difficult as only declared, briefly described aims and objectives are available.

In order to make the analysis more informative one must concentrate not on the priorities but on these couple of pages that are devoted to policy orientation in the EC’s communication. This analysis is organized as a checklist verification whether the way the CAP instrument are going to be shaped could have a positive impact on achieving goals of sustainable economy.

The choice of the sustainable economy goals is based on own approach of the key issues building the foundation of sustainable economics\(^7\) that could be achieved in agriculture or with the support of this sector. These goals are as follows:

I. Economic:
   I.1. Ensuring remuneration enabling independent existence paid for acceptable quality and quantity of work.
   I.2. Satisfying basic needs with sustainably produced goods offered at affordable prices.
   I.3. Internalising external costs.
   I.5. Ensuring fair competition.

II. Socio-cultural:

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\(^7\) According to the definition presented by H. Rogall sustainable economics is “an economic theory of sustainable development based on interdisciplinary foundations (H. Rogall (2010), *Ekonomia zrównoważonego rozwoju. Teoria i praktyka*. Wydawnictwo Zysk i S-ka, Poznań.”
II.1. Eliminating poverty and social exclusion.
II.2. Creating equal opportunities.
II.3. Ensuring high quality of life.

III. Environmental:
III.1. Slowing down climate change.
III.2. Reducing the number of species becoming extinct.
III.3. Reducing gradually the use of natural non-renewable resources.
III.4. Preserving renewable resources.
III.5. Reducing health risks due to lower toxic gas emissions.

1. Direct payments

According to the EC’s communication the system of direct payments needs changes in distribution, design and targeting of the support offered via this policy instrument. The eligibility criteria are to be both economic and environmental. Direct payments should accomplish two goals: support the incomes of their beneficiaries and offer a remuneration for public goods produced by the agriculture. The EC stressed that agricultural producers face “very different economic and natural conditions across the EU which advocates for an equitable distribution of direct aids”. Thus it put out of discussion flat rate single for the whole EU. However, it gave no explanation of how the rate will be determined “to reach an equitable distribution that reflects, in a pragmatic, economically and politically feasible manner, the declared objectives of this support, while avoiding major disruptive changes which could have far reaching economic and social consequences in some regions and/or production systems”. The EC suggested the possible route could be a system that limits the gains and losses of Member States by guaranteeing that farmers in all member states receive on average a minimum share of the EU-wide average level of direct payments. It is planned that direct payment rates will consist of basic income support with an upper ceiling for large individual farms. According to the EC the greening component could take the form of “simple, generalised, non-contractual and annual environmental actions that go beyond cross-compliance and are linked to agriculture (e.g. permanent pasture, green cover, crop rotation and ecological set-aside)”.

Furthermore, the proposal offers “promotion of the sustainable development of agriculture in areas with specific natural constraints by providing an additional income support to farmers in such areas in the form of an area-based payment as a complement to the support given under the 2nd pillar”. This is neither explained what is meant under the term
“sustainable development of agriculture”, nor the proposed amounts of payment rates are given

The description of future direct payment system does not say at what level the basic rate should be determined. There is no reference point given so it is not possible to access whether it will be a sufficient support to ensure independent existence of farm families. The proposed greening component does not seem to be a really far-reaching, ambitious proposals. These are a very conservative proposals. It seems that the use of fuels and other energy sources in agriculture is not taken into account. Therefore these proposals do not seem to offer a serious response to climate change problem and other issues important to environmental concerns expressed by sustainable economics. Moreover, there is no response to the need of internalising the external cost in the agricultural production. The communication mentions only positive externalities. The negative ones are omitted, although they constitute a threat to environment.

2. Market measures

The market measures are going to be a vital part of the CAP. The EC emphasized the need for streamlining and simplifying the currently used policy instruments. The proposed policy instruments include: extension of the intervention period, use of disturbance clauses and private storage to other products, and other revisions to enhance efficiency and improve controls. Such policy instruments should be a part of a safety net applicable in case of a price crisis. Moreover, the EC emphasized the importance of tackling the issue of existing imbalances in the bargaining power along the food chain.

There are no real proposals of any reform in case of market measures. Their inefficiency in the previous and current programming period gives no hope that they can be of use.

3. Rural Development

The so called 2nd pillar of the CAP is already an important part of the policy supporting agriculture and rural areas. However, the share of the financial resources spent on the policy instruments that are a part of this pillar is still insignificant. Although the EC emphasizes that “rural development policy has proved its value by reinforcing the sustainability of the EU’s farm sector and rural areas – economically, environmentally and socially”. Yet, the actual proposals are limited. The EC suggests that “environment, climate change and innovation should be guiding themes that steer the policy more than ever before”.

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The future policy instruments should support both economic and environmental performance of the supported farms. There are no details presented on the instruments that should be part of the EU policy. The evaluation of the policy is mentioned in the context of the necessity for simplification. Only the opinion on the need for strengthening the coherence between rural development policy and other EU policies gives a vague idea of the direction this policy should take in the future. The proposals made by the EC are very timid and evolve around the improvements in the existing set of measures.

There Commission’s communication emphasizes the usefulness of the measures already being implemented but it does not refer to their characteristics as tools for achieving sustainable development. Undoubtedly there are measures that are helpful in implementation of particular goals of sustainable economics but their impact is very limited and they sometimes support mutually exclusive goals with no synergy effects. The EU rural development policy is concentrated on socio-cultural aspects of sustainability.

4. Other instruments

Recent years proved that there is a need for a risk management toolkit. It should be ready to deal more effectively with “income uncertainties and market volatility that hamper the agricultural sector's possibility to invest in staying competitive”.

This set of policy instruments is only mentioned and the only detail is a list of possible instruments supporting the farmers in case of any production risks, including even changes in the WTO green box. With so limited information it can only be said that such a toolkit could be in line with the sustainable goals if it should take into account the level of sustainability of the farms supported.

5. Broad policy options

The European Commission presented three broad policy options. They are not fully mutually exclusive yet they offer varied approach towards the development of agriculture and rural areas. Option 1 would introduce further gradual changes to the currently applied policy framework. It concentrate on improving the distribution of direct payments. Option 2 is aimed at achieving a policy that would be more sustainable and balanced between objectives. As a tool for achieving this goal should serve more targeted policy instruments. This option emphasizes greater spending efficiency and focus on the EU value added. Option 2 is described as the one most suitable solution to contributing to success in implementing the objectives of the EU strategy “Europe 2020” in agriculture and rural areas. Option 3 would be
a more far reaching reform of the CAP. It should focus on environmental and climate change objectives. At the same time it should gradually reduce its income support and most market measures.

The brief remarks concerning the possible policy options are not sufficient to make any judgment. However, all the three options show that the key to the future CAP is not a set of priorities but the weight of importance prescribed to each of them. From the perspective of sustainable economics there is only one solution that is right – to make the environmental concerns the most powerful part of the future strategy for rural areas.

The first information concerning the European Commission’s approach towards the reform of the common agricultural policy – “The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future” – is a source of more doubts that certainties. The proposal is not detailed enough to make any thorough analyses. Yet, it shows the priorities and attitude towards the reform process. From the analysis of the details concerning the key parts of the CAP it is clear that the reform is not very ambitious. It is simply a slight change of words that should make the impression that sustainability is a key issues. However, the proposed shape of the policy instruments makes it clear that the CAP after 2013 is going to be a continuation, not an alteration of the current way it functions. This is just a tiny lifting of the ideas that were a response, not a very good one, to the challenges and problems valid at least 20 years ago. There is still no real incorporation of sustainable development perspective to the support given to the EU agriculture and rural areas. The assessment of the EC proposal within the sustainable economics framework shows that the proposed CAP reform offers no balancing of the economic, social and environmental issues (table 1)

### Table 1. The EC The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future versus sustainable economics basic goals

<table>
<thead>
<tr>
<th>SD dimension</th>
<th>Direct payments</th>
<th>Market measures</th>
<th>Rural development</th>
<th>Other instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Ensuring remuneration enabling independent existence paid for acceptable quality and quantity of work.</td>
<td>?</td>
<td>-</td>
<td>n.a</td>
<td>-</td>
</tr>
<tr>
<td>2. Satisfying basic needs with sustainably produced goods offered at affordable</td>
<td>✓</td>
<td>✓</td>
<td>n.a.</td>
<td>?</td>
</tr>
</tbody>
</table>
### Socio-cultural

| 1. Eliminating poverty and social exclusion. | ✓ /- | n.a. | ✓ | ? |
| 2. Creating equal opportunities. | ✓ /- | n.a. | ✓ | ? |
| 3. Ensuring high quality of life. | n.a. | n.a. | ✓ | ? |

### Environmental

| 1. Slowing down climate change. | ✓ /- | - | ? | ? |
| 2. Reducing the number of species becoming extinct. | ✓ /- | n.a. | ? | ? |
| 3. Reducing gradually the use of natural non-renewable resources. | - | - | n.a. | ? |
| 4. Preserving renewable resources. | - | - | ? | ? |
| 5. Reducing health risks due to lower toxic gas emissions. | - | - | n.a. | ? |

? – there is no information enabling the assessment
- - not fulfilled
✓ Based on the information available could be fulfilled
n.a. – nor applicable

*Source: own elaboration.*

Despite all the talk on climate change and sustainable management of natural resources as very important issues in the EU policy till 2020, the planned CAP reform shows no progress in these fields. The proposed policy instruments should make environmental issues the starting point for the whole reform as the gradual climate changes and weather abnormalities can be a serious hindrance in achieving both the CAP objectives and balance between the three pillars of sustainable development. The action plan should concentrate on three issues:

- water management;
- soil management;
- gas emissions.

The policy instruments should start to monitor the impact of agriculture on the above mentioned issues and should support making the management of water and soil both more
economically and environmentally efficient. The climate changes make water availability a growing concern for the EU farmers not only in the southern parts of the continent but also in some parts of other countries – like in some parts of Poland. Also the availability of land with soils good for agricultural use are becoming more and more difficult to find as there is growing competition for them from other economy sectors. The gas emissions stemming from agriculture, especially animal production, is an important part of greenhouse gas emissions. All these issues cannot easily be tackle by market forces or even single member states. Therefore they should be solved at the EU level.

Conclusions

The current world financial crisis that evolved into public finance crisis in a number of the EU countries fully showed that the mainstream economics offers no satisfactory explanation to the current economic processes and no solutions to them. The cooperative homo economicus\(^8\) seems to be a better suited to tackle complex issues of the modern, globalised world that needs to guarantee the humanity food safety and security.

The answer to the question posed in the title is – “the CAP needs much more greening than is offered in the first EC proposal for the reform after 2013”. The proposed CAP reform is not ambitious enough to seriously tackle the challenges of the 21\(^{st}\) century and to transform the CAP into a policy that supports sustainable development. Today’s CAP operates as an emergency unit. What is needed is a prevention system. Therefore the CAP needs a total makeover of the philosophy it is founded on. Nowadays the policy instruments should concentrate on protecting natural resources both as a key production factor for the agricultural activity and an indispensable element of providing conditions for any other human activity. The objective of the CAP should now become the ensuring all conditions necessary for food security and safety in the EU. Sustainable economics gives an important food for thought – why do the policy decedents do not want to take a bite?

Literature:


