



COMMON AGRICULTURAL POLICY: STEERING THROUGH THE DANGEROUS WATERS OF 2020

EUROPEAN AFFAIRS COMMITTEE AND ECONOMIC AFFAIRS COMMITTEE

Mr. Daniel GREMILLET, Ms Pascale GRUNY, Messrs Claude HAUT and Franck MONTAUGÉ

Report No. 672 (2016-2017) – 20 July 2017

This information report has been drawn up by the Common Agricultural Policy (CAP) monitoring group, jointly with the European Affairs and Economic Affairs Committees and co-chaired by Messrs. Jean BIZET and Jean-Claude LENOIR. It aims to provide areas for reflection about the future of the CAP after the current 2014/2020 budget planning period.

These discussions have been given concrete shape in the form of a draft European resolution and a political opinion in the framework of the dialogue established with the European Commission.

The ambiguous situation of the CAP today: an essential yet unsatisfactory policy

A - Strong budgetary support, though steadily declining over time

Over the period 2014/2020, France should receive 62.4 billion (bn) in current euros under the CAP: 52.5 billion, or 84%, for the 1st pillar and 9.9 billion, or 16%, for the 2nd pillar.

Nevertheless, the share of heading 2 (consisting of 98% of CAP funds) as a percentage of the total EU budget will fall from 41.6% in 2014 to 36% in 2020 in terms of commitment appropriations, and from 43.6%

in 2014 to 38.6% in 2020 in terms of payment appropriations.

The amounts of the 1st pillar, stated in the table below in 2011 euros, have since been updated : Thus France in reality received 7,687 million in 2014 and 8,130 million euros in 2015. For the 2nd pillar, the corresponding amounts are 798 million euros in 2014 and 820 million in 2015.

CAP amounts for France

European Parliament/Council compromise appropriation
(in millions of current euros)

Year	2014	2015	2016	2017	2018	2019	2020	Total
1 st pillar	7,586.4	7,553.7	7,521.1	7,488.4	7,462.8	7,437.2	7,437.2	52,486.8
2 nd pillar	1,404.9	1,408.3	1,411.8	1,415.3	1,418.9	1,422.8	1,427.7	9,909.7
Total	8,991.3	8962.2	8932.9	8,903.7	8,881.7	8,860	8,864.9	62,396.5

Source: SGAE October 2013

B - Essential aid for the vast majority of farmers

In 2014, 91% of farms received an average 34,600 euros in subsidies (excluding investment grants) i.e. 23,800 euros per non-

salaried working person. Such subsidies accounted for 82% of pre-tax operating income.

Without subsidies, 61% of farms would have had a current pre-tax loss in 2014, compared to 15% when subsidies are taken into account.

C - The defects of the CAP today

1. Inadequate protection against agricultural price volatility

While the CAP does feature protective mechanisms, none of them has been designed to deal with the consequences of highly volatile price swings.

Formally, the EU has maintained a very comprehensive legal and budgetary framework to address situations of imbalance: a whole section of the "Single CMO Regulation" is devoted to market intervention. However, not much should be expected from this since many Member States remain hostile to administered regulations.

2. Failures and delays in the crisis management policy

The response from European authorities to the crises in recent years has been slow and systematically too late. This was particularly the case when milk prices collapsed in 2014/2016.

3. Increased environmental requirements widely perceived as fussy, bureaucratic and punitive

The contribution of the latest CAP reform was to introduce the concept of "greening" while setting the protection of natural resources and biodiversity as a priority.

These objectives are widely shared by our farmers. However, the methods chosen to achieve them now often seem disconnected

from realities on the ground. Finally, while farmers do not oppose the principle of green payments, they question how these are implemented on the grounds of excessive complexity.

4. The continued ageing of the farming population

In France, there are still 473,900 farm holders, but this number has been falling at an annual rate of 1% over the period 2005/2014. The replacement rate of active agricultural contributors calculated by the Mutualité Sociale Agricole is globally only around 80%. Finally, the average age of farm holders or farm business managers has been growing steadily and reached 48.7 in 2014.

5. The complexity of the CAP

Waiting for CAP simplification to arrive is considered as being akin to "waiting for Godot". It is talked about on environmental, legal and budgetary levels. The complexity of the CAP is regularly criticized and fosters among public opinion the image of a bureaucracy disconnected from the economic reality on the farms.

Fully aware of these issues, the European institutions and Member States have not been inert. An initial action plan to simplify the CAP was drawn up in 2006. This initiative was relaunched in 2015. Finally, the simplification of the CAP is also being discussed in the current negotiations, in 2016/2017, on the draft "Omnibus Regulation".

The scenarios for CAP developments in 2020

A. Anticipate a clear budgetary danger in the short term

1. The unknown factor as to how the lack of resources resulting from the withdrawal by the UK from the European Union ("Brexit") will be offset in 2019/2020 (10 billion euros per year).

2. The difficult task of putting together the next multiannual financial framework for 2021/2027: in order to finance new priorities

the temptation will be great to try and free up room for manoeuvre at the expense of the European Union's traditional policies.

B. Making choices and defining a strategy

Firstly, the monitoring group does not advocate transposing the "Farm Bill" mechanism to the EU because of the major differences between the US and EU budgetary frameworks.

Likewise it does not agree with the counter-cyclical support system recommended by the Momagri think-tank, given the risk of asymmetric flexibility: indeed, Member States may refuse to increase spending in "bad years" after fully benefiting from falls in spending during more favourable periods.

In the final analysis, the monitoring group has set a small number of **five** priorities.

1. Improve crisis management tools

- The national framework needs to evolve, by easing the procedures for deduction for contingencies, on the one hand and opting to implement the income stabilisation tool (SRI) in France, on the other.

- At the European level, the budgetary resources allocated to risk management must increase, even if this means considering a reduction in direct aid. Claim and deductible thresholds must be lowered to 20% to make insurance attractive.

- Rather than focusing on one single measure, farmers must have access to a whole range of mechanisms to be used depending on the nature of the risks and the extent to which the hazard may be controlled (futures market, contingency deductions, crop insurance, income insurance ...).

2. Organise markets and "dare" implement more regulation to prevent crises rather than reacting to them, by adopting the recommendations of the "Task Force"

- Ensure the primacy of agricultural production over competition policy, in accordance with the objectives of the CAP (Article 39 TFEU), accepting agreements between producers in order to balance the power relationships with retailers (art. 222 of the Single CMO Regulation).

- Maintain current intervention mechanisms (aid for private storage, public storage, etc.). Accelerate intervention procedures. Define the notion of "crisis" on a European level so as to obtain a faster, more effective reaction.

- Use the European "crisis reserve" mechanism which has paradoxically

remained unused up to now. This reserve is supplied by annual levies of 400 million euros on direct payments and is redistributed if not used.

- Impose greater transparency on prices, punishing abusive trade practices, enabling producers to come together on broad bases to better negotiate. The exceptions that apply to the milk sector should be spread to all sectors.

3. Increase agricultural competitiveness

- Improve the "price competitiveness" of agriculture using all available national instruments, including tax.

- Encourage diversification of farmer income, particularly through the development of ancillary activities such as biogas or solar panels, which can provide further resources that are more stable over time than the often volatile markets.

- Support digital investments.

- Develop continuing education.

4. Encourage the link between agriculture and territory: for a European agricultural and food policy

- Maintain strengthened support (1 billion euros in ICHN/year) to mountain areas and simple disadvantaged areas.

- Keep the specific aid coupled with breeding.

- Initiate reflections on modulating CAP subsidies depending on how they are used.

5. Cease having a defensive approach in environmental matters

- Simplify environmental requirements.

- European agriculture provides services to society and to the environment. Farmers deserve to be paid in respect of the public goods that they produce, the positive externalities such as CO₂ storage in soils for example.

- Encourage a renewal of the European approach with real payments for environmental services (PES) rendered by farmers under one or other of the two CAP "pillars".

These priorities (in terms of the budget and competition in particular) require strong political decisions to be made. **After five successive attempts, the new reform of the CAP will be the last chance.** This is why the monitoring group wants to initiate without delay a substantive discussion

with the Minister of agriculture on the future CAP. For this purpose, it wishes to organise a debate in the Senate at the start of the next parliamentary session.

The draft European resolution for a renewed CAP

The information report is completed by a draft European resolution. It brings together **seventeen requests and recommendations, grouped into five main themes.**

1. The draft resolution reminds public opinion --and public policy-makers, who are often not sufficiently conscious, of the "**legitimacy of a strong, simple and legible common agricultural policy**". It also underscores the importance of the CAP in terms of food security and European food sovereignty.

2. The second focus of the draft resolution is intended to contribute to removing budget uncertainties that are jeopardising the future of the CAP in the short term. The terms used are strong: the objective is to "*warn against the risk that would be incurred by considering the common agricultural policy as the EU budget's adjustment variable in the future.*" On the contrary, the draft resolution stresses that the CAP "*remains a strategic priority which must benefit from a stable budget for the period 2021-2027 consistent with its ambitions and based on a logic of achieving maximum efficiency.*"

3. The third theme is that of **farmers' expectations, in light of the crises** in recent years. In general, the draft resolution considers that "*the market orientation of the common agricultural policy makes it essential to enable farmers to be in a position to cope with agricultural price volatility*".

It thus stresses "*the absolute need (..) to secure farmers income through a wide range of instruments, including insurance*", while calling for diversification of the said income, "*as well as ensuring farmers receive (..) a greater share of the added value*".

To achieve this, the resolution "*wishes to ensure the next CAP reflects the orientation proposed by the report (... from the) "Task force" on agricultural markets (...) consisting in adapting competition law to agricultural specificities and effectively increasing the weight of producers in the food chain*".

4. The fourth issue addressed by the draft resolution concerns **the CAP operating and management procedures**, starting with support for the simplification efforts already underway. Added to this is the wish to **boost the policy of support for young farmers**. Then, turning to **environmental issues**, it is proposed to consider that they "*must be addressed with pragmatism and efficiency, based on the development of research and innovation.*"

5. Finally, the fifth area of reflection in the draft resolution devotes five points to the **challenges of external trade in agricultural products**.

After recalling the principle of reciprocity and **demanding fair competition in international trade**, it approves the efforts of the European Commission in promoting our products internationally, seeking export markets and complying with geographical indications on external markets.

The draft resolution also requests that **steering tools be improved** enabling a sector by sector and country by country assessment of the ex-ante and ex-post consequences of the choices made during **trade negotiations**. It also wishes that "*the European Commission devotes as many administrative resources to monitoring trade agreements already signed as to the opening of new trade negotiations*".