

**The Common Agricultural Policy  
of the European Union  
– main challenges for a new budget**

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## „A budget is telling your money where to go instead of wondering where it went” Dave Ramsey

[„Zrobić budżet to wskazać swoim pieniądzom, dokąd mają iść, zamiast się zastanawiać, gdzie się rozeszły”]



Source: EC, Economic challenges facing EU agriculture, 2017.



# **Agenda**

**Introduction**

**Bratislava Declaration and Roadmap**

**The Rome Declaration**

**Reflection paper on the future of EU finances**

**Priorities and challenges for the next CAP budget (2021-2027)**

**SWOT analysis of European Agriculture**

**Conclusions**

## Main question

# What priorities and challenges are considered when shaping the new CAP budget?

(analysis of the opinions of selected Member States)

“The new budget is an opportunity to shape our future as a new, ambitious Union of 27 bound together by solidarity. With today’s proposal we have put forward a pragmatic plan for how to do more with less.”  
Jean-Claude Juncker, President of the European Commission, 2 May 2018

### EU BUDGET FOR THE FUTURE

#EUBudget





## Introduction

**52%** of the European Union (EU) territory is classified as predominantly rural.

More than **170 million hectares** of agricultural land, and **113 million people** (nearly one quarter of the EU population) is living in rural areas.

The Common Agricultural Policy (CAP) represents one of the largest shares of expenditure from the EU budget.

# Introduction



**The Common Agricultural Policy (CAP)** consists of **two pillars (P1 and P2)**. The **first includes direct payments** (i.e. annual payments to farmers to help stabilise farm revenues in the face of volatile market prices and weather conditions) and market measures (to tackle specific market situations and to support trade promotion); whereas **the second pillar concerns rural development policy**.

Agricultural policies are at the crossroads of several crucial aspects of European Union, (e.g. viable food production, sustainable management of natural resources, rural vitality), with a direct impact – according to the European Commission – on more than half of EU territory and EU consumers . In the EU, more than 7.3 million farmers are CAP direct payment beneficiaries and they manage more than 170 million hectares of agricultural land.

At present, nearly **38% of the EU budget** is spent on CAP – with **€408.31 billion** allocated to CAP for the Multiannual Financial Framework (MFF) 2014-2020, of which **€308.72 billion** is allocated to **the first pillar (28.5%)**.

Source:

[http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/586622/EPRS\\_BRI\(2016\)586622\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/586622/EPRS_BRI(2016)586622_EN.pdf)

[http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/586623/EPRS\\_BRI\(2016\)586623\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/586623/EPRS_BRI(2016)586623_EN.pdf)



# **Main challenges for a new EU budget**

# Bratislava Declaration and Roadmap (16 September 2016)



## I. General diagnosis and objective

Many common challenges: people concerned by a perceived lack of control and fears related to migration, and economic and social insecurity.

## II. Migration and external borders

Ensure full control of our external borders and get back to Schengen

Broaden EU consensus on long term migration policy and apply the principles of responsibility and solidarity

## III. Internal and external security

Support Member States in ensuring internal security and fighting terrorism

## IV. Economic and social development, youth

### Concrete measures:

- decision on extension of the European Fund for Strategic Investment in light of evaluation
- review progress as regards delivering on the different Single Market strategies (including Digital Single Market, Capital Markets Union, Energy Union)
- ensure a robust trade policy that reaps the benefits of open markets while taking into account concerns of citizens
- decisions on EU support for Member States in fighting youth unemployment and on enhanced EU programmes dedicated to youth

## V. Way ahead

Strengthen the mechanism for reviewing the implementation of decisions taken

Loyal co-operation and communication of Member States and institutions



# The Rome Declaration (25/03/2017)



## **Safe and secure Europe**

all citizens feel safe and can move freely, where our external borders are secured, with an efficient, responsible and sustainable migration policy, respecting international norms; a Europe determined to fight terrorism and organised crime.

## **Prosperous and sustainable Europe**

Union, where strong, connected and developing Single Market, embracing technological transformation, and a stable and further strengthened single currency open an avenues for growth, cohesion, competitiveness, innovation and exchange, especially for small and medium-sized enterprises; Union promoting sustained and sustainable growth, through investment, structural reforms and working towards completing the Economic and Monetary Union; Union, where economies converge; Union, where energy is secure and affordable and the environment clean and safe.

## **Social Europe**

based on sustainable growth, promotes economic and social progress as well as cohesion and convergence; Union taking into account the diversity of national systems and the key role of social partners;  
Union which promotes equality between women and men as well as rights and equal opportunities for all;  
Union which fights unemployment, discrimination, social exclusion and poverty; a Union where young people receive the best education and training and can study and find jobs across the continent; a Union which preserves our cultural heritage and promotes cultural diversity.

## **Stronger Europe on the global scene**

Union further developing existing partnerships, building new ones and promoting stability and prosperity in its immediate neighbourhood to the east and south, but also in the Middle East and across Africa and globally; a Union ready to assist in creating a more competitive and integrated defence industry; Union committed to strengthening its common security and defence, also in cooperation and complementarity with the North Atlantic Treaty Organisation, taking into account national circumstances and legal commitments; a Union engaged in the United Nations and promoting free and fair trade and a positive global climate policy.

# REFLECTION PAPER ON THE FUTURE OF EU FINANCES



The Commission published a Reflections Paper on the Future of EU Finances: Five Scenarios – Implications. This followed the publication of the White Paper on the Future of Europe in March in which **five scenarios** for the future development of the European Union were set out.

## **There are five basic options for the future of EU finances:**

1. Carrying on: the EU-27 continue to deliver their positive reform agenda.
2. Doing less together: the EU-27 do less together in all policy areas.
3. Some do more: the EU-27 allow groups of Member States to do more in specific areas.
4. Radical redesign: the EU-27 do more in some areas, while doing less elsewhere.
5. Doing much more together: the EU-27 decide to do more together across all policy areas.

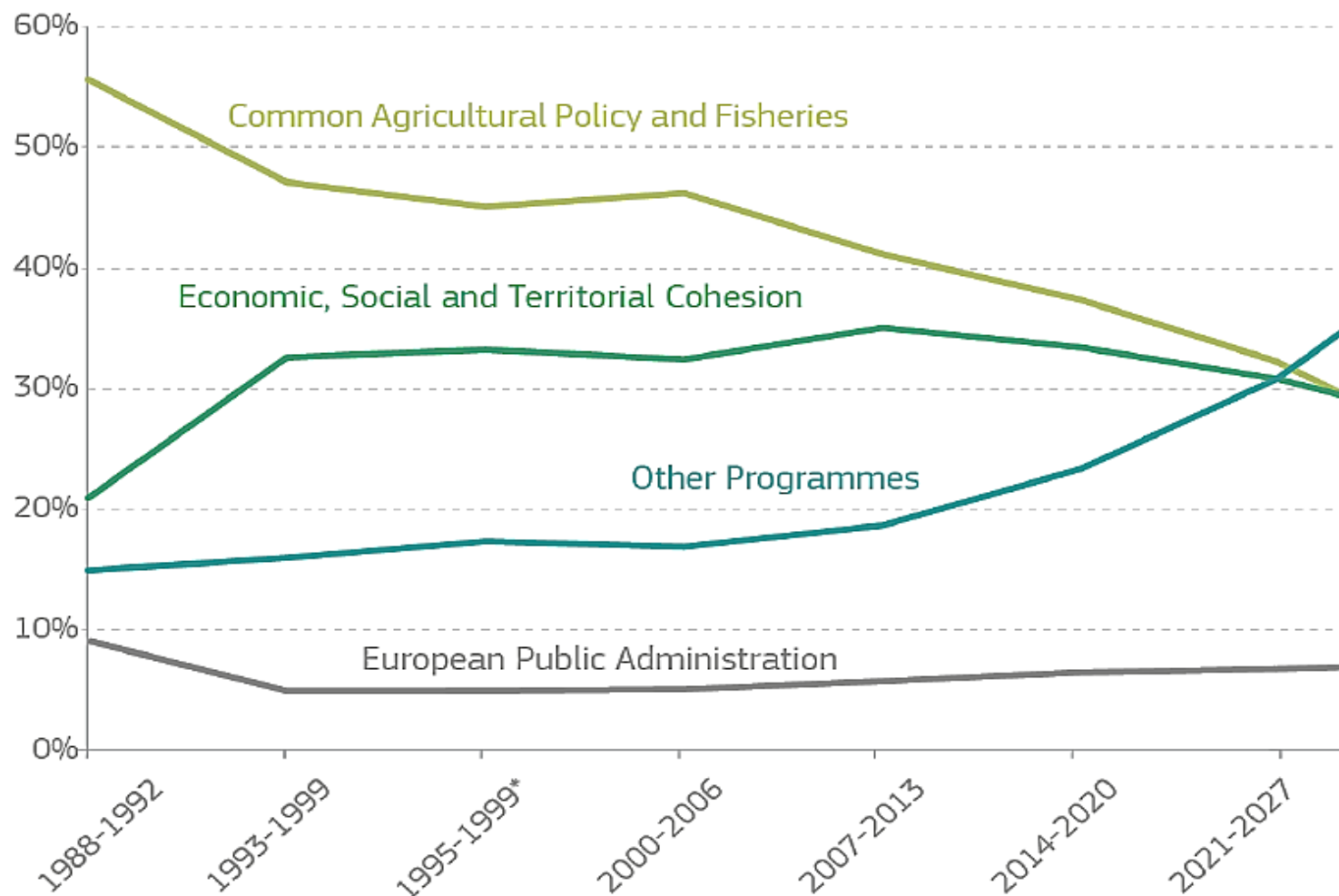
Based on these five scenarios, the Reflections Paper on the future of the EU finances examined the implications of these scenarios for the size and composition of the EU budget. In all scenarios except the fifth (which assumes a commitment to a significant step up in the degree of European integration), the CAP budget will be lower. The CAP will take a smaller share of the EU budget, and in some scenarios this overall budget will also be reduced.

## REFLECTION PAPER ON THE FUTURE OF EU FINANCES

SCENARIOS	1. Carrying on	2. Doing less together	3. Some do more	4. Radical redesign	5. Doing much more together
POLICY PRIORITIES	Taking forward current reform agenda	Mainly financing of functions needed for the single market	As in scenario 1; additional budgets are made available by some Member States for the areas where they decide to do more	Financing of priorities with very high EU value added	Doing much more across policy areas
<b>AGRICULTURE</b>	<b>Lower share</b>	<b>Lower amount</b>	<b>Same as in scenario 1</b>	<b>Lower share</b>	<b>Higher amount</b>

Source: European Commission COM(2017) 358 of 28 June 2017.

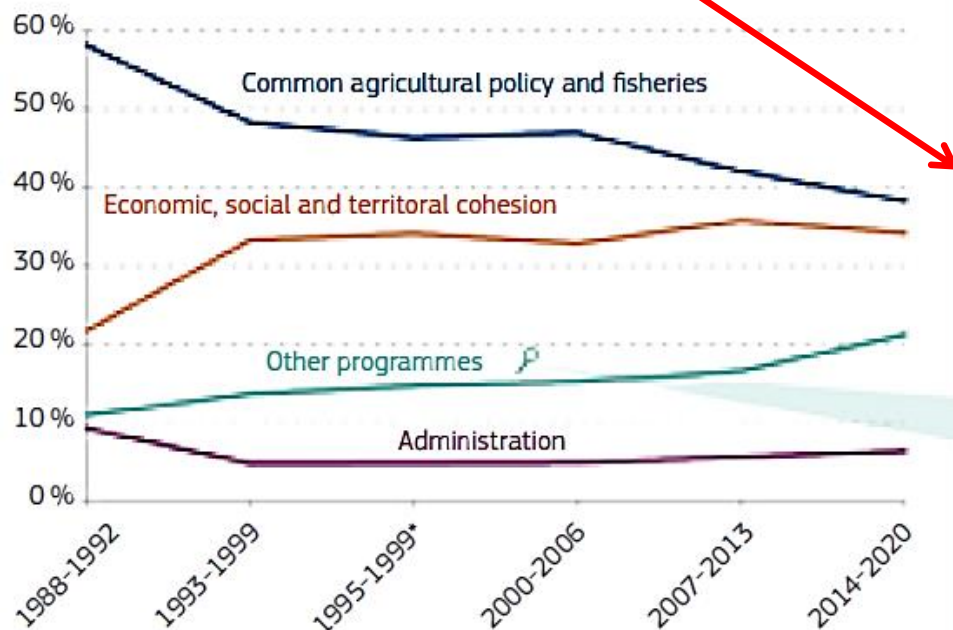
## Evolution of main policy areas in the EU budget



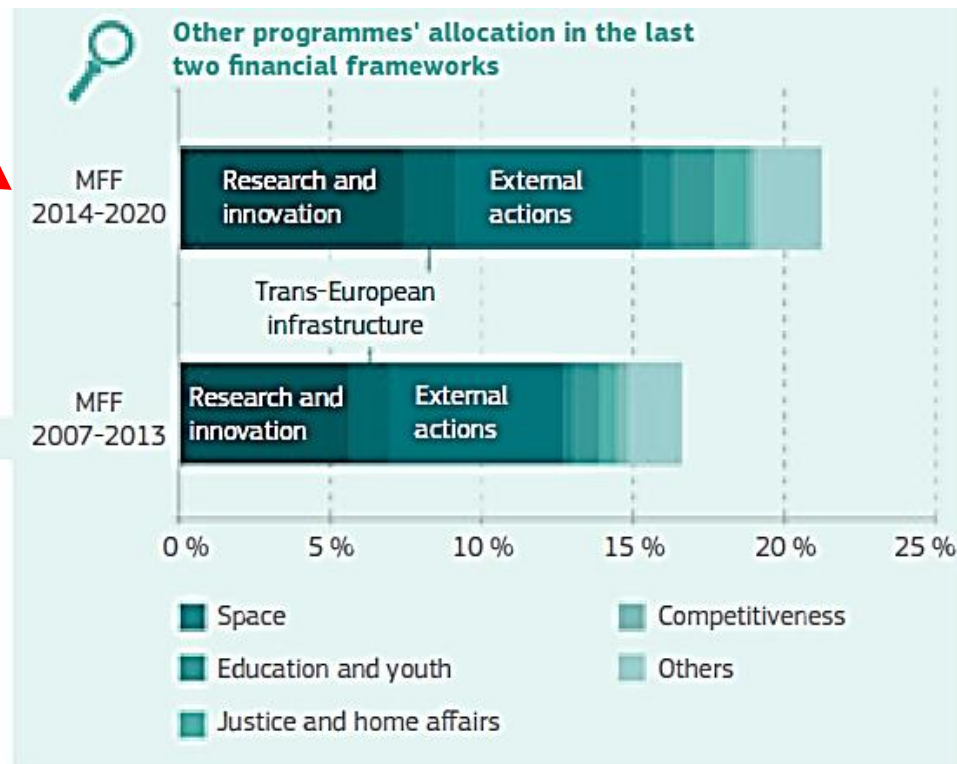
Source: European Commission COM(2017) 358 of 28 June 2017

# REFLECTION PAPER ON THE FUTURE OF EU FINANCES

## Other programmes



\*Adjusted for 1995 enlargement



Source: European Commission COM(2017) 358 of 28 June 2017

# Important dates



On **29 March 2017**, the United Kingdom notified the European Council of its intention to leave the European Union, in accordance with Article 50 of the Treaty on European Union.

On 14 March 2018, plenary adopted two resolutions on „Preparing the Parliament's position on the MFF post-2020” and „Reform of the EU system of Own-Resources”, which present Parliament’s views on the next MFF and put forward recommendations on the budget's revenue side.

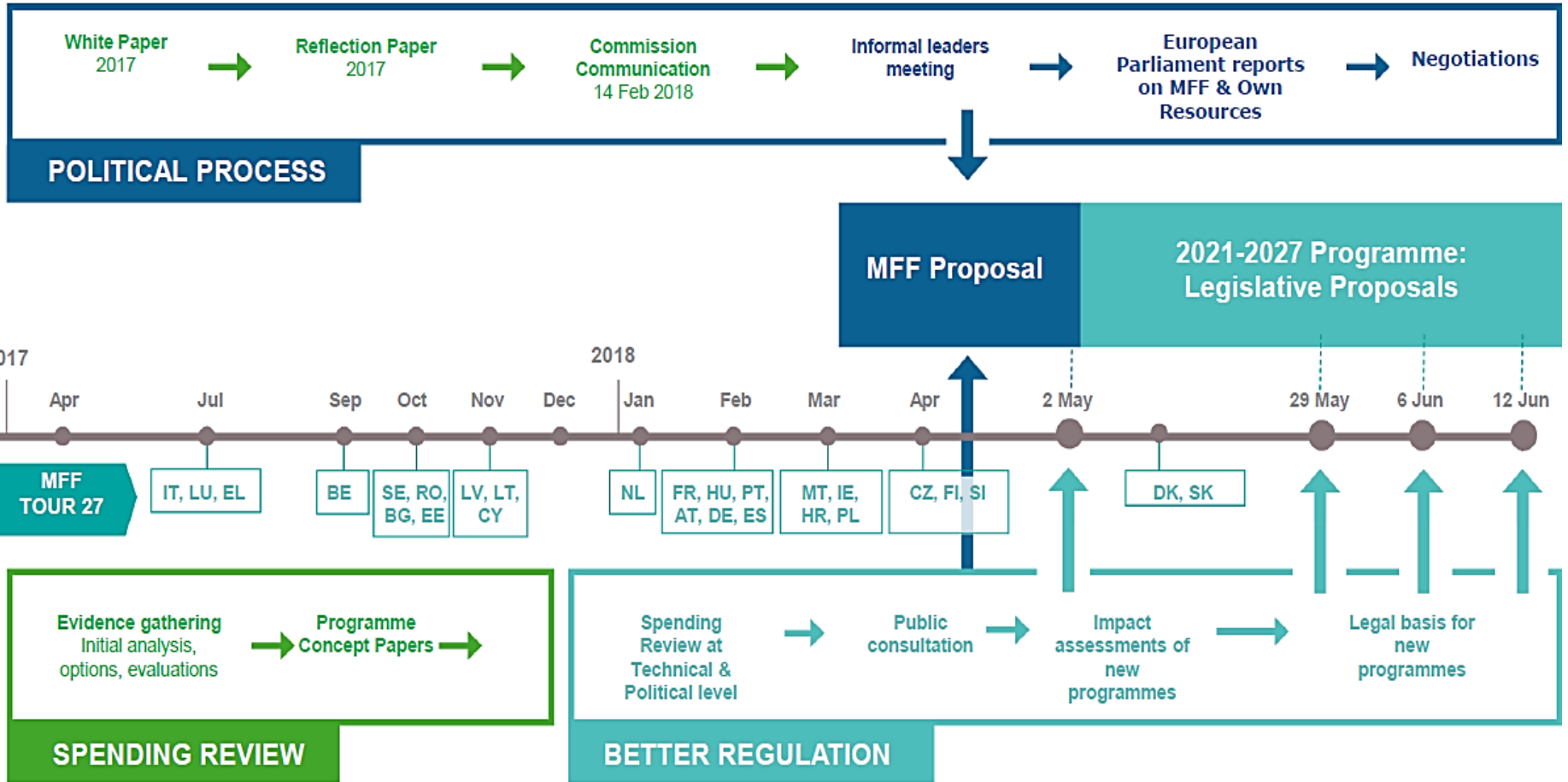
On Wednesday 2 May 2018, European Commission president Jean-Claude Juncker and commission member in charge of budget and human resources Günther Oettinger participated in a debate on the new proposals for the EU’s post-2020 long-term budget and revenue reform in the European Parliament [**22% of proposed CAP 2020 budget for rural development fund**].

On Thursday 3 May, Commissioner Günther Oettinger present to the BUDGET committee the Commission’s proposal for the EU’s next Multiannual Financial Framework (MFF). The document set out not only how the Commission conceives the general framework for the next generation of EU programmes, including headline figures for each of the budget’s main areas, but also how, in its view, the EU budget should be paid for after 2020 ('EU Own Resources').

From 29 May, the Commission adopt gradually a series of legislative proposals for all EU programmes and funds post-2020.

Source: European Commission, 2018.

# New budget for the EU-27



# EU Budget for the future



The Commission proposes a long-term budget of €1.135 billion in commitments (expressed in 2018 prices) over the period from 2021 to 2027, equivalent to 1.11% of the EU27's gross national income. This level of commitments translates into €1.105 billion (or 1.08% of gross national income) in payments in 2018 prices.

To fund new and pressing priorities, current levels of funding will need to be increased. Investing now in areas such as research and innovation, young people, the digital economy, border management, security and defence will contribute to prosperity, sustainability and security in the future. For instance, the budget of Erasmus+ and the European Solidarity Corps will be doubled.

The Commission has critically examined where savings can be made and efficiency improved. The Commission is proposing that funding for the Common Agricultural Policy and Cohesion Policy is moderately reduced – both by around 5% – to reflect the new reality of a Union at 27. These policies will be modernised to ensure they can still deliver with less and even serve new priorities.

A new Reform Support Programme which – with an overall budget of €25 billion – will offer financial and technical support to all Member States for the pursuit of priority reforms, especially in the context of the European Semester. In addition, a Convergence Facility will provide dedicated support to non-euro area Member States on their way to joining the common currency.

A European Investment Stabilisation Function which will help to maintain investment levels in the event of large asymmetric shocks. It will start in the form of back-to-back loans under the EU budget of up to €30 billion, coupled with financial assistance to Member States to cover the costs of the interest. The loans will give extra financial support at a time when public finances become stretched and priority investments must be maintained.





## **GERMAN PERSPECTIVE**

The CAP (P1 and P2) needs to be better targeted and more efficient in spending taxpayers money, to achieve its stated policies regarding public services for lively rural areas and the protection of biodiversity. At the same time, farmers would like to avoid excessive bureaucracy and want to develop their farms with only a necessary level of intervention. Therefore, the next CAP reform 2020 has a long list of challenges!

## Three main scenarios for a CAP-reform 2020 (German perspective):



### Consolidation scenario

The CAP 2020 would maintain the actual system and implement while also sharpening the concept of greening

On the other hand there would be a simplification of Cross-Compliance – even if this sounds very contradictory.

This scenario would rather take place with a one-party CDU-government in Germany.

### Second pillar reform scenario

A moderate reform could bring a small or substantial reduction of direct payments in P1 and an increase of P2.

This could (Scenario 2a) come with a general cut of direct payments on the EU-level or by means of further redistribution between EU-member-states, so that Eastern European countries might get higher and Western European countries lower direct payment-rates. Or (scenario 2b) this reform would again introduce flexibility elements subject to national decisions (as in the CAP-reform 2013), so that a shift of P1 to P2 would depend on the implementation of national governments.

This scenario would be realistic with a government of SPD-Green, but also with CDU-Green or in a great coalition with Green agricultural ministers in the federal states.

# Three main scenarios for a CAP-reform 2020 (German perspective)



## Reduction-scenario

Overall reduction of the agricultural budget. The reform might only touch the P1-direct payments or even reduce rural development programs (P2). The free money would go into other priorities within the EU like unemployment, refugees or to support countries with financial problems (as Wolfgang Schäuble has suggested). This scenario would be dominated by financial politicians like Schäuble, but also with support of liberal parties. A CDU-FDP-coalition might support this scenario, but in case of a crisis, a great coalition or CDU-Green might also go into this direction.

Source: Sebastian Lakner, CAP direct payments post 2020: German positions, 2015.

# FRENCH PERSPECTIVE



Future plans for agricultural policy making must allow for the fact that **European agriculture faces volatility of growing price.**

Farmers need **stable incomes and economic visibility**, which have been conspicuously absent in the European dairy crisis of recent years. For this they need real bargaining power in downstream **price negotiations** with food processors and retailers.

European consumers should be able to know what they are eating and where it comes from.

European citizens should be able to attribute some socio-environmental gains from the CAP in terms of **counteracting climate change, preserving biodiversity and soil health.**

The UK's exit from the EU will have a significant impact on the next phase of agricultural policy making, leaving a question mark hanging over the future EU budget to the tune of EUR 10 billion a year.

**The options are:**

- **to increase national contributions,**
- **cut expenditure**
- **or an amalgam of the two.**

# Main challenges for a new CAP budget



**The future CAP focus on nine general objectives reflecting the economic, environmental and social importance of the policy:**

1. Support viable farm income and resilience across the EU territory to enhance food security;
2. Enhance market orientation and increase competitiveness including greater focus on research, technology and digitalisation;
3. Improve farmers' position in the value chain;
4. Contribute to climate change mitigation and adaptation, as well as sustainable energy;
5. Foster sustainable development and efficient management of natural resources such as water, soil and air;
6. Contribute to the protection of biodiversity, enhance ecosystem services and preserve habitats and landscapes;
7. Attract young farmers and facilitate business development in rural areas;
8. Promote employment, growth, social inclusion and local development in rural areas, including bio-economy and sustainable forestry;
9. Improve the response of EU agriculture to societal demands on food and health, including safe, nutritious and sustainable food, as well as animal welfare.

# SWOT analysis of European Agriculture



## Strengths

- A majority of European farmers are operating in a favourable production environment.
- They produce a wide range of safe and high value foods.
- Many farmers operate in an innovative food chain.
- EU food chains are diverse and adaptive.
- The success of EU agriculture is also shown by its record export performance.

# Weaknesses

- Income in the farming sector is generally low and below, what can be achieved in other sectors in the economy (on average only 40% of average wages in the EU-28 economy).
- There are huge differences in income level between different regions, size classes and sectors within the farming sector.
- Income is also quite volatile, with up to 20% of farmers experiencing income drops above 30% each year.
- Furthermore, EU farmers experience some legal limitations towards some innovations in comparison to competitors, following health/environmental assessment of risks and/or societal choices.
- EU average production costs for wheat and beef across all types of farms, varying in size, location and productivity, tend to be higher than in other world regions.
- There are clear bargaining asymmetries with limited power for individual farmers.
- Unfair trading practices (UTP) tend to persist.
- Concentration in the farming sector remains very low, as the sector mainly consists of micro enterprises.
- Innovators are few and far in between in the EU farm sector.

# Opportunities

- Trends in food demand and exports provide opportunities for further growth.
- High consumer expectations (e.g. traceability, food safety/health, animal welfare, environment protection) coupled with high EU standards offers opportunities for high value markets.
- The development of the bio-economy, the green economy and the circular economy.
- A number of new opportunities is developing related to the increased consumer interest in local food and short supply chains.
- Demand growth due to population growth, increases purchasing power and a shift in consumption patterns in many parts of the world should be expected to continue in coming years.
- Technologic improvement of information, logistics and organization in the food chain can give another boost to EU food supply chains.
- Digitalisation of agriculture and the further roll out of precision farming is also showing potential for cost reduction at the level of the farmer.



# Threats

- Specific vulnerable agricultural sectors, such as the beef sector but also sheep, rice, sugar and poultry, could come under substantial pressure with full trade liberalisation and unfettered competition with imports.
- Volatility is also growing, as dependency on other commodity markets, such as the energy market, increases.
- Severe market disruptions have to be expected to occur, given the increased pressure on natural resources, more extreme climatic events and potential outbreaks of animal and plant diseases and geo-political instability.
- The rapid increase in bilateral and regional trade agreements across the world and the overall trend towards general trade liberalization might absorb parts of the competitive advantage the EU gains with individual bilateral free trade agreements (FTAs).

# Threats



- The emergence of major players on the global agricultural markets was seen in the last decade.
- Some countries, like China, are also developing policies aiming at reaching self-sufficiency for some strategic commodities (e.g. rice). Latin American countries, especially Argentina and Brazil, are also investing in production for export and acquiring compliance with international hygiene standards. This implies that developed countries – the EU among them – are likely to become less dominant players on international agricultural markets over time.
- Competitiveness on the world market may furthermore be highly influenced by other factors such as energy prices (or more broadly input costs), available infrastructures, and exchange rates.
- Threats are also to be expected from lack of consumer confidence (due to fraud, gaps in controls, traceability issues). The complexity of the supply networks, with the growing length and complexity of the supply networks potentially decreases the efficiencies of cooperation, making them more vulnerable to shocks, breakdowns in communication and misalignment of incentives.
- Diverse price pressures may also further materialize.
- There are high concentration levels in both the food processing and food distribution sectors.
- The food distribution market is also highly concentrated.

## SWOT analysis - continuation

The economic challenges identified by the SWOT analysis:

- **pressures on farm income,**
- **weaknesses in productivity and competitiveness,**
- **imbalance in value chains.**



## Conclusions

The CAP continues to be the largest single spending item in the EU budget.

There is great reluctance among Member States to increase the overall size of the budget, yet the EU needs to address significant new challenges, especially with respect to migration, security, climate changes, public goods and growth.

**Brexit will add to these pressures because it leaves a hole in the EU budget.**

The adaptability of the CAP ensures its continued relevance (climate change, price volatility, political and economic uncertainty, rural depopulation and the growing importance of global trade).

The CAP is leading a transition towards a more sustainable agriculture, foster the sector's resilience and support farmers' income and viability. It ensures that agriculture plays its full role in relation to the environment and climate challenge and accommodates digital innovations that make the jobs of farmers easier, reduce red tape and support generational renewal.

## Conclusions

Despite the constructive developments of the CAP since the mid-1990s, it is argued here that the current principal support expenditures (P1: direct payments) are inefficient, ineffective and inequitable in relation to stated objectives and these must be further reformed.

Ideas are offered to break the log jam and thereby offer a way of achieving a reform of the CAP which can fulfil its purpose of enabling a productive, resource efficient and economically viable agriculture, which is environmentally sustainable too protect climate and biodiversity and be embedded in thriving, integrated rural economies.



## Conclusions

The multiannual financial framework (MFF) 2021-2027 includes **€365 billion for the CAP (in current prices)**. This corresponds to an average share of **28.5% of the overall EU budget** for the period 2021-2027. Out of this amount for the CAP, €265.2 billion is for direct payments, €20 billion for market support measures (EAGF) and €78.8 billion is for rural development (EAFRD).

An additional **€10 billion** will be available through the EU's **Horizon Europe research programme** to support specific research and innovation in food, agriculture, rural development and the bio-economy.

As a result, a **reduction of around 5% for the CAP budget in current prices** is proposed; this is equivalent to a **reduction of around 12% in constant 2018 prices without inflation**.

# Conclusions

**Ageing of inhabitants of European rural areas vs. migrants**

**Investments in knowledge and technologies for low-emission economy and environmental protection**

**The use of IT capabilities and point / precise approach to agricultural production**

**Efficient logistics on the line: suppliers of production factors - agricultural producers - recipients of final products**

**Transparency of expenditures and effects under the CAP programmes**



**Thank you for your attention!**

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**“Don’t tell me where your priorities are.  
Show me where you spend your money  
and I’ll tell you what they are”  
James W. Frick**

[„Nie mów mi jakie są Twoje priorytety.  
Pokaż mi, na co wydajesz pieniądze,  
a sam Ci powiem, jakie one są”]



***” Nothing is conducive to wise and factual discussion, like the atmosphere of money”  
Mario Puzo, The Godfather***

„Nic tak nie sprzyja mądrej i rzeczowej dyskusji, jak atmosfera pieniądza”  
Mario Puzo, Ojciec Chrzestny