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POLITICAL AGREEMENT ON NEW DIRECTION FOR THE COMMON AGRICULTURAL POLICY (CAP) POST-2013

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Abstract
The first policy elaborated by the EU – the Common Agricultural Policy – has been a powerful instrument of European unification and, despite demographical and economic challenges, it remains the main common policy. The data demonstrate that, in the new financial framework 2014-2020, the CAP expenditure for the EU-28 has a decreasing share in the EU budget. In this paper we want to point out the main CAP directions in the interval 2007-2013 and the new directions post-2013. Our results emphasize the importance of financing agriculture in the Multi-Annual Financial Framework 2014-2020 and the main changes proposed for the next years.

Key words: common agricultural policy, CAP post-2013 reform, multi-annual financial framework, changes and challenges

INTRODUCTION

Over the last five decades, the common agricultural policies have been criticized for their lack of transparency and for the unequal distribution between member states. Since 1992, by successive reforms, the Common Agricultural Policy (CAP) has focused on the market orientation of agriculture, on the introduction of income support mechanisms, and on creating safety nets for producers to improve the integration of environmental requirements, together with strengthening support for rural development.

The CAP 2014-2020 has come to implement more equitable and greener measures, while ensuring effectiveness and competitiveness, by introducing fairly distributed and active farmer oriented direct payments, simplified financial management, higher protection against price volatility, etc.

The post-2013 CAP reform continues the improvement initiatives in recent decades, maintains the two pillars and focuses on increasing the connections between them, enabling a more integrated approach. This reform aims at contributing to the implementation of competitive and sustainable agriculture in the European Union by introducing measures allowing transfers between the two pillars, by enabling the regional application of the basic payment scheme, the support for young farmers, the introduction of optional schemes, sectoral approaches, etc. The new design of the CAP is significantly more efficient, accurate and consistent, relying on a more targeted, integrated and complementary approach. The flexibility between the two pillars granted for Member States in order to achieve PAC aims is limited by budgetary constraints, clearly regulated and defined so as to ensure a level playing field across Europe.

MATERIAL AND METHOD

This paper aims at providing justification for specific public policies in rural areas, with emphasis on the implication of the new directions in post-2013 CAP implementation. Relying on recent publications in the field, the paper actually constitutes a professional study conveying the authors' views on the future of the Common Agricultural Policy, trying to emphasize the importance of financing agriculture in the 2014-2020 Multi-Annual Financial Framework, as well as the main changes proposed for the next years.

RESULTS AND DISSCUSIONS

The Common Agricultural Policy is implemented through multi-annual financial frameworks based in inter-institutional agreements which cover the processing and distribution of all EU funds. These agreements covered the following intervals: 1988-1992 (Delors I Package, OJ L 185 of 15 July 1988), 1993-1999 (Delors I Package, OJ C 331 of 7 December 1993), 2000-2006 (Agenda 2000, OJ C 172 of 18 June 1999 and OJ L 160 of 26 June 1999), 2007-2013 (OJ C 139 of 14 June 2006) and 2014-2020 (OJ L 347 of 20 December 2013). Since the Lisbon Treaty, the MMF has become a legally binding act; it is the most important instrument for evaluating the implementation of the EU budget and policies. The political agreement between the Commission, the Council and the European Parliament establishes the regulation on Direct Payments, the Single Common Market Organization, the Rural Development, the financing, the CAP managing and monitoring, the Multi-Annual Financial Framework (the transfer of funds between pillars, the allocation of national envelopes for DP and RD, the co-financing rates, etc.)

Short description of CAP implementation over the past decades

The CAP reforms from 1992 (MacSharry), 1999 (Agenda 2000), 2003 (Fisher) and 2008 (Health Check) introduced a shift from products support to producer support, from direct payments spending to rural development. During these reforms and along with the EU enlargement process, the share of CAP expenditure of the EU budget fell from 93.5 % in 1969 to 41.4 % in 2013 (Fig. 1).

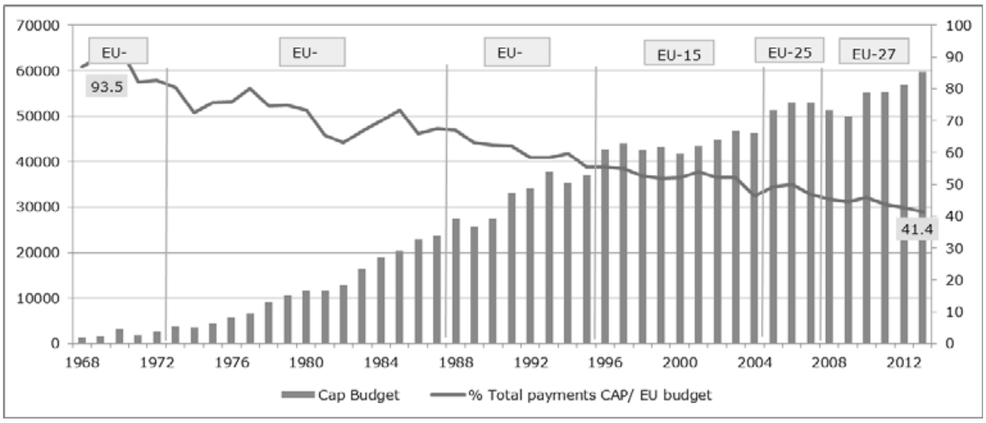

Fig. 1 CAP budget and shares in the EU budget over 1968-2013 (2011 constant prices)

Until 1992, the CAP spending had been mainly on price support via market mechanisms (intervention and export subsidies). After 1992, the CAP reform reduced the market price support, increased the producer support in the form of direct payments and increased the proportion of rural development measures. Agenda 2000 introduced the second pillar, and, with the 2003 reform, most direct payments were decoupled from current production (Fig. 2).

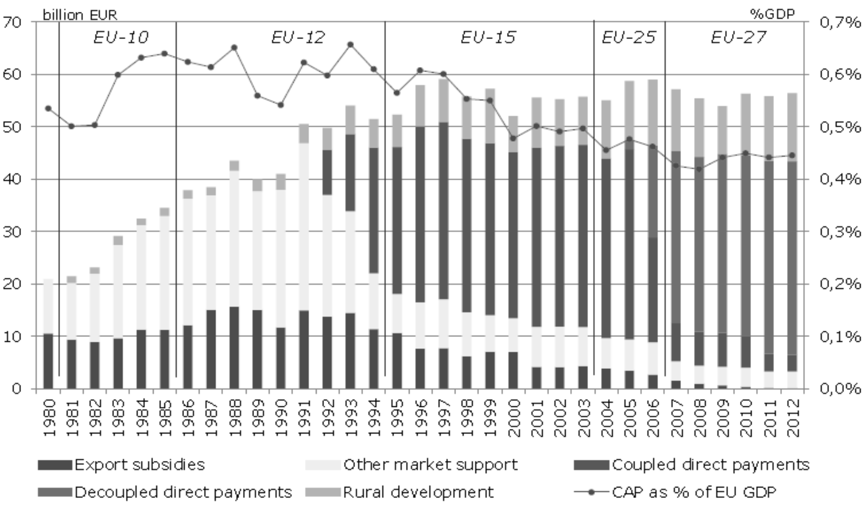

Fig. 2 CAP expenditure and CAP Reform path (current prices)

CAP implementation in 2007-2013

Starting with 2007-2013, the MMF has established 6 headings, with the CAP expenditure incorporated under Heading 2 (Preservation and

Management of Natural Resources), which is the most important section of the EU budget (ranging between 43-51%). In Romania, especially in the interval 2010-2012, such spending was the most important within the EU national financing (over 60%).

In 2007-2013, a total of € 298 billion was spent through the first pillar, most of it being Direct Aid (Direct payments); a total of € 80 billion was spent through the second pillar (Table 1). In Romania, according to the same source, € 4781.7 million was spent for market support, and € 5076.4 million for rural development (a total of € 9.9 billion).

Table 1

CAP expenditure 2007-2013

	2007	2008	2009	**2010**	2011	2012	**2013**	Total
Preservation and management of natural resources	53.85	52.09	50.63	55.91	55.87	57.92	57.90	384.17
Market related expenditure and direct aids	42.09	40.75	41.28	43.70	42.80	43.89	43.90	298.41
%	**78.2**	**78.2**	**81.5**	**78.2**	**76.6**	**75.8**	**75.8**	
Agriculture markets	41.86	40.48	41.03	43.41	42.50	43.59	43.64	296.51
Direct Aid	37.04	36.77	37.78	39.43	39.68	40.21	40.56	271.47
Export refunds	1.44	0.90	0.49	0.39	0.18	0.15	0.06	3.61
Storage	-0.11	0.15	0.09	0.09	-0.18	0.03	0.03	0.11
Other	3.48	2.65	2.68	3.50	2.82	3.21	2.99	21.32
Fisheries market	0.02	0.03	0.02	0.01	0.03	0.04	0.02	0.18
Animal and plant health	0.21	0.25	0.22	0.28	0.27	0.26	0.24	1.72
Rural development	10.81	10.53	8.74	11.49	12.29	13.17	13.02	80.04
%	**20.1**	**20.2**	**17.3**	**20.5**	**22.0**	**22.7**	**22.5**	
European fisheries fund	0.75	0.57	0.29	0.40	0.45	0.48	0.57	3.50
TOTAL EXPENDITURE	105.30	104.96	102.82	111.34	117.34	126.35	134.66	802.76

Source: The EC, the EU Budget 2013, the Financial Report. Also covering the Multi-Annual Financial Framework 2007–2013

The main features of CAP 2014-2020

Within the recent MFF 2014-2020, the CAP strategy to be enforced after 2013 is centred on the following concerns: global agricultural budget sums; current direct aid scheme with redistribution types and range; exact amounts granted to each aid component within the future national payment limits; new criteria for giving rural development expenditures among Member States; detailed rural development strategic framework containing an integrated approach to the Structural Funds; and, last but not least, the respective importance of cost and price volatility fighting mechanisms.

Key objectives of post 2013 CAP

The new reform of CAP is going to respond to a series of key challenges such as: economic ones (food security, globalization, decrease in the productivity growth rate, price volatility, farmers' role marginalization in the supply chain), environment challenges (soil and water quality, threats to habitats and to biodiversity), as well as territorial challenges (negative demographic, economic and social developments in rural areas, as well as depopulation and business concentration in urban areas). The CAP aims at addressing these challenges by three long term main objectives (COM/2010/ 0672 final, 2010):

- ***Viable food production*** – *it will* contribute to the increase of farm incomes, to increased competitiveness in the agricultural sector, to enhanced value of the share of agriculture in the food chain, and to the development of areas with specific natural constraints.
- ***Sustainable management of natural resources and climate action*** – *it will* contribute to enhanced provision of environmental public goods, to fostering green growth through innovation, and to pursuing climate change mitigation and adjustment actions.
- ***Balanced territorial development*** – *it will* contribute to rural employment support, to an improved rural economy, to diversification promotion and to structural diversity in the farming systems.

Key changes in CAP 2014-2020

The new reform modifies the system of direct payments, the market measures and the rural development measures (Katsarova, 2013):

- ***Direct payments:***
  - replace the SPS/SAPS by a Basic Payment Scheme in order to assure more equitable distribution among farmers, regions and MS (over 70% of direct payments);
  - implement uniform payments per hectare (internal convergence);
  - assure external convergence, by increasing their envelope via MS if they receive below 90% of the EU average;
  - 30% of the direct payments for eco-friendly agricultural practices (greening) (crop diversification, maintaining permanent pastures, protecting biodiversity);
  - an annual aid for small farmers up to 10% of the MS direct payments (fixed sums between € 500-1000) (up to the end of 2014);
  - additional aid of 25% for the first five years (up to 25 hectares farms) for young farmers (up to 2% of the total amount envelope);
  - additional aid of 5% for farmers from areas with natural constraints;
  - provide a limited amount of coupled payments;
- ***Market measures:***
  - extending the private storage;
  - a new crisis management tool to fight volatility (under Pillar II);
  - eliminate the production quota system for the sugar sector in 2015;
  - support producer organisations;

- continue the distribution of vegetables, fruits and milk in schools;

- ***Rural development – six priorities are proposed*** (2013, the European Commission): ”fostering knowledge and innovation transfer in agriculture, forestry, and rural areas; enhancing farm viability and competitiveness of all types of agriculture in all regions and promoting innovative farm technologies and sustainable management of forests; promoting food chain organisation, including processing and marketing of agricultural products, animal welfare and risk management in agriculture; restoring, preserving and enhancing ecosystems related to agriculture and forestry; promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, in the food and forestry sectors; promoting social inclusion, poverty reduction and economic development in rural areas”.

CAP budget in the Multi-Annual Framework 2014-2020

The MMF for 2014-2020, approved in November 2013 (the Council of the European Union, 2013), reveals a reduction in expenses for the agricultural policy in the next period. The amount allocated for CAP (EAGF and EAFRD) reaches € 362.8 billion, 37.8% from the EU Total Budget respectively (a smaller share than the one of 47.1% registered in 2007-2013). In this way, in 2020, the CAP budget will represent 35% of the EU expenses, over 5% lower than in 2013 (Table 2).

Table 2

CAP expenditure 2014-2020 (2011 constant prices)

	2013	2014	2015	2016	2017	2018	2019	2020	Total
Competitiveness for growth and jobs	18.0	15.6	16.3	16.7	17.7	18.5	19.7	21.1	125.6
Economic, social and territorial cohesion	52.4	44.7	45.4	46.0	46.5	47.0	47.5	47.9	325.1
Sustainable Growth: Natural Resources	59.6	55.9	55.1	54.3	53.4	52.5	51.5	50.6	373.2
EAGF- Market related expenditure and direct payments	43.2	41.6	41.0	40.4	39.8	39.1	38.3	37.6	277.9
European Agricultural Fund for Rural Development (EAFRD)	13.9	12.9	12.6	12.4	12.1	11.9	11.7	11.4	84.9
European Maritime Affairs and Fisheries	0.9	1.0	1.0	1.0	0.9	0.9	0.9	0.9	6.6
Environment and climate action (Life)	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	3.1
Agencies	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Margin	1.2	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.4
Security and citizenship	2.5	2.1	2.1	2.2	2.2	2.3	2.4	2.5	15.7
Global Europe	9.1	7.9	8.1	8.3	8.4	8.6	8.8	8.8	58.7
Administration	0.0	8.2	8.4	8.6	8.8	9.0	9.2	9.4	61.6
Compensation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GRAND TOTAL	141.6	134.3	135.3	136.1	137.1	137.9	139.1	140.2	960.0
CAP expenditure in the EU budget - %	**40.3**	**40.5**	**39.6**	**38.8**	**37.9**	**37.0**	**35.9**	**35.0**	**37.8**
EAGF - %	**72.4**	**74.4**	**74.4**	**74.5**	**74.5**	**74.5**	**74.4**	**74.4**	**74.5**
EAFRD - %	**23.3**	**23.0**	**22.9**	**22.8**	**22.7**	**22.7**	**22.6**	**22.6**	**22.8**

Source: the European Commission

The Commission's MFF confirms the retention of the two-pillar structure of the CAP, with € 277.8 billion allocated for direct payments and market measures in Pillar 1, while € 84.9 billion is assigned to rural development expenditures within Pillar 2. The Commission also proposes further € 3.5 billion for crisis management measures in agriculture to be funded outside the MFF. This triggers the establishment of an emergency mechanism to fight crisis situations so as to grant immediate support to farmers in a fast-track procedure.

The MFF also integrates the new directions of CAP implementation, respectively:

- convergence of payments;
- greening of direct payments (30% of direct payments will be conditioned by compliance regulations);
- support active farmers;
- the capping savings will be relocated to rural development funds;
- create a simplified allocation mechanism for the support of small farmers;
- assure bidirectional flexibility between pillars.

CONCLUSIONS

Our analysis of Pillar I measures revealed that many of the redistribution schemes are optional or only have minimal requirements (depending on MS implementation); the Redistributive Payment is a viable instrument to increase payments for small and medium size family farms; the Young Farmers Scheme does not prove meeting the effectiveness or competitiveness requirements, and the Small Farmers Scheme can simplify the access for many such farms. Payments remain connected to land, so there will be constant support leak for land owners. Another important aspect is that the flexibility allowed to the MS, although welcome, can be an impediment in the CAP simplification process. The distribution of payments among farmers creates an opportunity to support small farms but it is not accompanied by specifications regarding the degree of convergence or the extent of the distribution. The additional aid for young farmers or small farms may influence these categories financially, but, in the long run, it will not consistently improve the competitiveness and/or the market orientation.

Regarding Pillar II measures, we observed that fostering knowledge transfer and innovation is a central component but it will be difficult to implement without a real infrastructure for know-how transfers. The package for young farmers is likely to be sufficient in stimulating new entry and the requirement to engage in business planning is likely to improve farm competitiveness. Moreover, this new Pillar II package does not contain any direct stimulus for retirement other than the one for small farmers. The impact of support for producer groups and the Quality Package are likely to be very MS specific. For many, these schemes will add little value, in the case of MS with a more intensive farm sector focused on commodity production for exports.

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