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SOLIDARITÉ

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

The CAP towards 2020:

Meeting the food, natural resources and territorial challenges of the future

[This communication is very disappointing but is a clear reflection of the unbalance of powers in the EU food chains in favor of the agri-food industries which have exerted a lot of pressures on the European Commission to devise a new CAP which will continue to lower the prices of agricultural products, their raw materials, and for that to open more and more the EU market to cheaper imports. This fundamental objective is hidden and wrapped up in a lengthy discourse on the greening of the CAP and direct payments. But there is not the slightest hint to the necessity for the CAP to take into account its unavoidable impact on developing countries (DCs). They are only viewed as a huge potential market that the EU should contribute to feed in the long run, ignoring that it is presently the EU which has a huge food deficit vis-à-vis these countries.

Yet, there is a large consensus in the EU and in all developed countries that the DCs should protect their domestic market because, without remunerative prices, their farmers would not be able to increase food production at the level required by their demographic explosion, particularly in Sub-Saharan Africa (SSA). However the EU does not see that SSA countries and other poor DCs will not be able to implement a strategy of food sovereignty unless the rules of the WTO Agreement on agriculture (AoA) are changed first, if only because many net food exporting DCs of the G-20 – Brazil, Argentina, Thailand, Malaisia, Chile…– will not agree, as some of them are already exporting more food to the other DCs than to Northern countries, and this proportion will increase much for demographic reasons.

If the EU were really willing to help poor DCS to feed themselves in the long run, it should rebuild the CAP on food sovereignty and use at the same time its powerful influence within the WTO to find a large consensus among DCs to rebuild the AoA on the same principle: the right of nations to feed themselves as long as they do not harm the rest of the world through a dumping hidden under green box direct payments, a sleight of hands which has lasted enough and for which DCs are no longer taken in.]

1. INTRODUCTION

The Common Agricultural Policy (CAP) is confronted with a set of challenges, some unique in nature, some unforeseen, that invite the EU to make a strategic choice for **the long-term future of its agriculture and rural areas**. 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.

In preparation for this Communication, the Commission organised an extensive public debate earlier in 2010 that concluded with a conference in July 2010[1]. The Council discussed during four successive Presidencies the reform, the European Parliament (EP) adopted an own- initiative report on the post-2013 CAP[2], and its link with the Europe 2020 Strategy and both the Economic and Social Committee and the Committee of the Regions (CoR) have come forward with position papers.

In the course of these discussions, the overwhelming majority of views expressed concurred that the future CAP should remain a **strong common policy** structured around its **two pillars**. In broad terms, the views expressed recommended the following strategic aims:

- To preserve the food production potential on a sustainable basis throughout the EU, so as to guarantee long-term **food security** for European citizens and to contribute to growing world food demand, expected by FAO to increase by 70% by 2050. Recent incidents of increased market instability, often exacerbated by climate change, further highlight these trends and pressures. Europe's capacity to deliver food security is an important long term choice for Europe which cannot be taken for granted.
  [Before claiming to feed the rest of the world the EU-27 must first put an end to its growing food trade deficit, passed from €11 billion in 2000 to €21.7 billion on average from 2006 to 2009, of which €36.6 billion with developing countries (DCs) as it has had a structural surplus of €15.5 billion with the developed countries – limited here to Australia, Canada, Japan, New-Zealand, Norway, Switzerland, USA – and Russia. 78% of its imports have come from DCs which have bought only 44.9% of its exports. 61% of its deficit is due to fish and shellfish, 73.5% of which deficit is vis-à-vis DCs.

Table 1 – EU-27 food trade from 2000 to 2009

€ million	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Exports	48,058	49,425	50,559	48,987	49,210	52,453	58,442	62,562	69,217	62,662
Imports	59,066	63,311	63,802	62,341	65,266	69,445	75,378	84,318	94,357	83,004
Deficit	11,008	13,886	13,243	13,354	16,056	16,992	16,936	21,756	25,140	20,342
" in fish	9,878	10,770	10,274	10,255	9,976	11,458	13,404	13,545	13,322	12,682

Source: Eurostat, SITC Rev.3, codes 0, 11, 22, 4.

  Yet this deficit can only increase strongly as the EU keeps signing bilateral agreements with a multitude of DCs in which, each time, tariff cuts are granted on agricultural products, the major threat coming from the on-going negotiations with Mercosur. Besides, the EU has agreed, in the WTO Revised modalities on agriculture of 6 December 2008, to reduce by 54% on average its agricultural tariffs and by 80% its overall trade distorting domestic supports on agriculture (OTDS, of the amber and blue box, including the de minimis supports of the amber box) if it signs the final agreement of the Doha Round.]

- To support farming communities that provide the European citizens with **quality,**

value and **diversity of food** produced sustainably, in line with our environmental, water, animal health and welfare, plant health and public health requirements. The active management of natural resources by farming is one important tool to maintain the rural landscape, to combat biodiversity loss and contributes to mitigate and to adapt to climate change. This is an essential basis for dynamic territories and long term economic viability.

- To maintain viable rural communities, for whom farming is an important economic activity creating local **employment**; this delivers multiple economic, social, environmental and

[1] 5,600 contributions were received in the public debate and the Conference assembled over 600 participants.

[2] http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2010-0286&language=EN&ring=A7-2010-0204

territorial benefits. A significant reduction in local production would also have implications with regards to greenhouse gases (GHG), characteristic local landscapes as well as more limited choice for the consumer.

Agriculture is an integral part of the European economy and society. In terms of indirect effects, any significant cut back in European farming activity would in turn generate losses in GDP and jobs in linked economic sectors – notably within the agri-food supply chain, which relies on the EU primary agricultural sector for high quality, competitive and reliable raw material inputs, as well as in non-food sectors. Rural activities, from tourism, transport, to local and public services would also be affected. Depopulation in rural areas would probably accelerate. There would therefore be important environmental and social consequences.

Reform of the CAP must also continue, to promote greater competitiveness, efficient use of taxpayer resources and effective public policy returns European citizens expect, with regard to food security, the environment, **climate change** and social and **territorial** balance. The objective should be to build more sustainable, smarter and more inclusive growth for rural Europe.

To achieve this, in line with the Budget Review Communication[3] and with its market orientation,

[The EU's "*market orientation*" has become a recurrent mantra of the European Commission but it is a totally false mantra as the EU agricultural prices have nothing to do with market prices. Indeed, without its huge direct payments – hidden or not yet in the single farm payments (SFPs) –, the domestic prices would be much higher, the more so as the bulk of farms would have disappeared. And claiming that most of these direct payments are decoupled does not change the fact that they are granted to farmers, not to the unemployed workers. By the way these payments are not decoupled (see J. Berthelot, *The CAP subsidies are incompatible with the WTO Agreement on agriculture*, Collectif Stratégies alimentaires et plateforme Souveraineté alimentaire, Bruxelles, 31 March-1st April 2010, http://www.solidarite.asso.fr/Papers-2010.html?debut_documents_joints=10#pagination_documents_joints)
and the EU maintains very high tariffs on its basic food staples (cereals, sugar, dairy products, meats).

Indeed since 1992 the EU is no longer a *market economy* for agriculture and the other WTO Member States could have prosecuted it for its dumping, on the same legal basis as the EU has been using to sue the exports of countries considered as *non market economies*. The basic legislation is the Council regulation (EC) n° 384/96 of 22 December 1995 on protection against dumped imports from countries not members of the European Community, in its article 2.7, this regulation having been amended several times to take into account the economic and political evolution of these countries. And article 1.c) of the regulation n° 384/96 specifies that one should bring "*sufficient evidence that the producer operates under market economy conditions, that is if: decisions of firms regarding prices, costs and inputs, including for instance raw materials, cost of technology and labour, output, sales and investment, are made in response to market signals reflecting supply and demand, and without significant State interference in this regard*". Clearly, one cannot say that the EU's producers of cereals, oilseeds, pulses, meats and dairy products – and this list of products is not exhaustive – take their production decisions "*in response to market signals reflecting supply and demand and… without significant State interference*".]

the future CAP should contain a **greener** and more **equitably distributed** first pillar and a second pillar focussing more on **competitiveness** and **innovation**, **climate change** and the **environment**. This would allow EU agriculture to release its latent productivity potential, notably in the new Member States, and contribute to the Europe 2020 objectives. Targeting support exclusively to **active farmers and remunerating the collective services they provide to society** would increase the effectiveness and efficiency of support and further legitimize the CAP. Ensuring controllability of measures proposed together with continued work on simplification of the policy are other essential elements in achieving these aims. All this needs to happen within the constraints of limited budgetary resources and taking into account the severe impact of the economic crisis on agriculture.

2. THE CAP REFORM PATH

The main objectives of the CAP set out in the Treaty of Rome have remained the same over the years. However, the reform path of the CAP since the early 1990s has led to a completely new policy structure.

The challenges addressed relate to agriculture's productive capacity, the increasing diversity of agriculture and rural areas following successive enlargements, and the demands by EU citizens on the environment, food safety and quality, healthy nutrition, animal health and welfare, plant health, the preservation of the countryside, biodiversity and climate change. At the same time, the instruments to achieve the objectives have also changed considerably.

[Sure but in the opposite direction that would have been necessary: replacement of an efficient import protection by direct payments; their alleged decoupling and the amalgamation of the various common market organizations (CMOs) in a single CMO which no longer permits to intervene efficiently according to the specific needs of each agricultural chain; the denial of the dumping impact of those direct payments which have replaced the export refunds; the liquidation of public stocks of cereals which has conferred to the EU a major responsibility in the two explosions of cereals prices of 2007-08 and the present hike of 2010-11 as there is a reverse correlation between the levels of global stocks and global prices. Indeed the EU-27 stocks (public and private) have fallen by 20 million tonnes (Mt) from 2005-06 to 2007-08, accounting for 76.2% of the reduction of global stocks, and by 17.8 Mt from 2008-09 to 2010-11 (USDA projections of 9 November 2010), accounting again for 73.2% of the expected reduction of global stocks. Let us add that the EU-27 has deprived the world market from 20 Mt in two years (from 2005-06 to 2007-08) as it has passed from a position of net exporter of 10.6 Mt to a position of net importer of 9.9 Mt as, under the pressure of livestock producers stricken by the explosion in feedstuffs prices, the EU has eliminated the tariffs on cereals for one year.]

Today, they are structured in **two complementary pillars**, with annual direct payments and market measures making up the first, multi-annual rural development measures the second pillar.

The introduction of direct payments has been a lever for consistent market-oriented reforms, enhancing the competitiveness of the agricultural sector by encouraging farmers to adapt to

3 The EU Budget Review - COM(2010) 700.

market conditions. Decoupled direct payments provide today basic income support and support for basic public goods desired by European society.

Because of this greater market orientation, to a large extent the market measures, which were the main instruments of the CAP in the past, today provide merely a safety net only used in cases of significant price declines.

Rural development aims at promoting competitiveness, the sustainable management of natural resources, and the balanced development of rural areas by more specific and targeted measures. It gives Member States flexibility to address the issues of most concern within their respective territory with co-financing. Other CAP initiatives, such as quality policy, promotion and organic farming, also have an important impact on farmers' situation.

Together, the present set of policy measures results in what is the **main contribution of the CAP** – a **territorially and environmentally balanced EU agriculture** within an open economic environment.
[What do we mean by "an open economic environment"? If it is that at present the EU has low tariffs, it is false except for oilseeds, pulses and some cereals. Indeed, except preferential agreements, particularly with DCs and even more with the less developed countries (LDCs), and except the tariff quotas opened by bilateral agreements, the MFN (most favored nation) tariff, essentially applied to imports from other developed countries, remains very high: 93 € per tonne on soft wheat of a low or average quality beyond a tariff quota of 2.9 Mt, 172 €/t on wheat flour, 95 €/t on barley, and 13 tariffs lines on cereals products exceed 100%; 66% on frozen meat (bovine, pig and poultry meat) and 66 tariff lines on meat products exceed 100%; 87% on dairy products and 41 tariff lines exceed 100%; 59% on sugar and preparations and 8 tariff lines exceed 100%. On the other hand the EU agreement to reduce by 54% on average its agricultural tariffs if the Doha Round is concluded confirms that it has opted for "an open economic environment", hence for the planned elimination of the bulk of its farmers, to be replaced by mega industrial farms, with all the implications on the non sustainability of its agriculture on the economic, social, environmental and animal welfare levels, contrary to the Commission's present communication.]
Delivering more public benefits in future will require a strong public policy because the goods provided by the agricultural sector cannot be adequately remunerated and regulated through the normal functioning of markets.
[A contrario these "public goods" cannot be ensured without a strong regulation of markets.]
Withdrawing public support would lead to greater concentration of agricultural production in some areas with particularly favourable conditions, using more intensive farming practices, while the less competitive areas would face marginalisation and land abandonment[4]. Such developments would result in increased environmental pressures and the deterioration of valuable habitats with serious economic and social consequences including an irreversible deterioration of the European agricultural

production capacity.

[It is above all the elimination of market regulation tools – and first of an efficient import protection – which will lead to the type of agriculture described in the report published in 2000 by the professors W. Henrichsmeyer et H.P. Witzke of Bonn University on behalf of the European Commission: "*Only those farms, which reach a minimum degree of international competitiveness, will survive as commercial full time farms in liberalised markets in the long-term. Similarly, it may be expected that only those rural areas with a sufficient number of commercial full-time farms as 'backbone" will be able to keep an efficient agribusiness complex… A key task of the CAP should be to contribute to international competitiveness of the core of commercial farms on suitable locations in Europe. This is also a precondition to attain frequently stated income goals in a liberalised world*" (W. Henrichsmeyer, H.P. Witzke, *Overall evaluation of the Agenda 2000 CAP reform*, Bonn University, European Commission, February 2000, http://ec.europa.eu/agriculture/publi/caprep/impact/6_en.pdf).]

3. WHAT ARE THE CHALLENGES?

3.1. Food security

The primary role of agriculture is to supply **food. Given that demand worldwide will continue rising in the future, the EU should be able to contribute to world food demand. Therefore** it is essential that EU agriculture maintains its production capacity and improves it while respecting EU commitments in international trade and Policy Coherence for Development. A strong agricultural sector is vital for the highly competitive food industry[5] to remain an important part of EU economy and trade (the EU is the leading world exporter of, mostly processed and high value added agricultural products)[6].

[One should add that, for all the EU-27 agricultural products, the average imports under the inward processing regime (IPR) from 2006 to 2009 have been of €2.540 billion or 3.3% of the €76.416 billion of total agricultural imports whereas the corresponding average of exports under the IPR has been of €7.539 billion or 10.5% of total agricultural exports of €71.485 billion. The IPR allows the EU agri-food industries to import tariff free raw agricultural products as long as they are re-exported after processing, whereas they would have had to pay tariffs without this re-export. Therefore, if the EU formal agri-food exports have been of €71.485 Md€, the actual agricultural exports have been of only €63.946 billion as €7.539 billion of exports do not correspond to the processing of domestic agricultural products. Clearly the EU agri-food industries process a lot of imported agricultural raw products but these products are either subjected to tariffs or are imported duty free, particularly tropical products from DCs. But the IPR is different as it deals with products subjected to tariffs if they are not re-exported. Furthermore the IPR is normally only authorized when the EU agro-industries cannot find the necessary agricultural products on the domestic market. But, on the pressures of CIAA (Confederation of the food and drink industries of the EU), the European Commission has enlarged broadly the possibility to use imported agricultural products, including when they are available in the EU: it suffices that the imported products are cheaper.

Nevertheless this large flexibility of the EU rules on the IPR is not enough for Coabisco, the European federation of industries of confectionery, for which "*In light of the plans to phase out export refunds and the reform process in some agricultural sectors (e.g. dairy, sugar) we suggest that economic conditions be always deemed as fulfilled for products for which export refunds are set at zero at the time of an IPR application… The definition of "Community producers would not be adversely affected" (economic conditions) remains vague… CAOBISCO requests that the priority should be the interests of operators using inward processing and not Community producers, if by that definition producers of agricultural commodities are being targeted. The reason why CAOBISCO operators would use IPR is to remain competitive internationally and nothing else*" (http://ec.europa.eu/enterprise/sectors/food/files/high_level_group_2008/documents_hlg/comments_in ward_processing_arrangements_en.pdf).

Coabisco goes much farther in its interpretation of trade rules and all farmers should read it: "*Refunds for the processed agricultural products are not subsidies, as their role is to compensate for the difference of EU and World Market Prices and compensate EU exporters for the adverse effects of the EU Agricultural policy… However, elimination of refunds should only be considered when raw material prices are totally determined by market forces, and therefore will be similar to those on the world market… Facilitating competitive exports by allowing import of competitive raw material is probably the most straightforward and WTO compatible alternative on which the Commission should build on in finding alternatives to refunds… Therefore, it is urgent that the inward processing mechanism must be reviewed and simplified, so as for operators to access it without having to face additional burdens and constraints. It is of the utmost importance that access to IPR is granted automatically and not arbitrarily by local or central authorities. We are concerned about the politicisation of test of economic conditions from a simple assessment of economic viability of using Community sources, to a political decision on whose essential interests should prevail, the interest of Community producers or the interests of operators who use or intend to use the processing procedure. The outcome therefore is no longer a result of sound economic judgement but who has the better lobbying influence, farmers & processors or EU manufacturers. We strongly recommend a system where as a general rule economic conditions are deemed to be fulfilled*" (*CAOBISCO key messages on export refunds and future export competitiveness*, May 2007, http://ec.europa.eu/enterprise/sectors/food/files/high_level_group_2008/documents_hlg/comments_inward_processing_arrangements_en.pdf).

Furthermore, Coabisco is not afraid of its contradictions when requiring that importing countries reduce their tariffs on EU exports and at the same time that the EU increases its own tariffs on its imports from them: "*An additional tool for maintaining competitiveness in the export market is to gain concessions through bilateral trade agreements on import duties of EU products in destination countries, in exchange for suspension of the export refunds, in advance of any forced removal of refund under the WTO process*" and, on the other hand, that "*The remaining EU duty must always be sufficient to prevent imported product from being more price competitive than that made in the EU*".]

It should encourage the synergies between crop and livestock farming, e.g. in proteins. Moreover, EU citizens demand **high quality** and a **wide choice** of food products, reflecting high safety, quality and welfare standards, including **local products**. In this context, the issues of access, availability and acceptability of healthy food and nutritional efficiency have also become more apparent. EU agriculture finds itself today in a considerably more **competitive environment**, as the world economy is increasingly integrated and the trading system more liberalized. This trend is expected to continue in the coming years, in view of the possible conclusion of the Doha round negotiations and of the bilateral and regional agreements at present under negotiation.

4 See Scenar 2020 – Prospective scenario study on agriculture and the rural world.

5 Food Industry represents 13.5% of total employment and 12.2% of gross value added of European manufacturing Industry.
[However it accounts for only 2% of the EU-27 GDP: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1016&format=HTML&aged=0&language=FR&guiLanguage=en]

6 Agri –food exports represent 6.8 % of total EU exports.

This represents a challenge for EU farmers, but also offers an opportunity for EU food exporters. Therefore, it is important to continue to enhance the competitiveness and productivity of the EU agriculture sector. Favourable in the medium-term, the

perspectives for agricultural markets are expected nonetheless to be characterised by greater **uncertainty** and increased **volatility**.
[As already underlined above, the EU *food trade* is more and more in deficit even is the deficit is a little lower in *agricultural trade*. We note here that the Commission confirms without any worry that "*the world economy is increasingly integrated and the trading system more liberalized. This trend is expected to continue in the coming years, in view of the possible conclusion of the Doha round negotiations and of the bilateral and regional agreements at present under negotiation*". Why should it worry as the CAP is clearly devised for the sake of agro-industries which think that they have everything to gain from a sharp reduction of EU tariffs. Yet this is highly questionable because, if 84.5% of the EU-27 unprocessed agricultural food products have been sold on the internal market on average from 2006 to 2008, this has also been the case for 75.1% of the processed agricultural food products. The more so as the CIAA report of October 2010 on the competitiveness of the EU food and drink industries (www.ciaa.be/documents/brochures/ciaa-comprep-web.pdf) underscores that they are more and more left behind by the competitiveness of emerging economies as of the other developed countries for many reasons, which are not limited to the EU higher agricultural prices, but also, among others, to lower expenditures on research and development and a lower growth in labour productivity. So much so that the global market share of the EU food and drink industries is decreasing fast, having already fallen from 24.6% in 1998 to 17.5% in 2008. As the EU-27 GDP accounted in 2009 for 21.1% of global GDP, as the EU-27 is increasingly a net importer of food products and as this trend will increase with the EU commitment to open more the EU market, the EU food and drink industry should clearly prioritize the interest to keep its domestic market, hence to defend the EU food sovereignty.

And the CIAA's press release of 18 November after the Commission communication on "The CAP towards 2020" insisted again on the necessity to get lower agricultural prices: "*The food and drink industry relies on access to adequate supply of safe and sustainable produced agricultural raw materials that correspond to specific and high quality criteria and which are competitively priced*." http://www.ciaa.be/asp/documents/detailed_doc.asp?doc_id=925". In other words they want butter, the price of butter and the smile of the dairy shop missis.]

Moreover, the future CAP will operate in the aftermath of an **economic crisis** that has seriously affected agriculture and rural areas by linking them directly to wider macroeconomic developments affecting its cost of production. After a decade of mere **income** stagnation, agricultural income dropped substantially in 2009 adding to an already fragile situation of an agricultural income significantly lower (by an estimated 40% per working unit) than that in the rest of the economy, and income per inhabitant in rural areas is considerably lower (by about 50%) than in urban areas.

3.2. Environment and climate change

Agriculture and forestry play a key role in producing public goods, notably environmental such as landscapes, farmland biodiversity, climate stability and greater resilience to natural disasters such as flooding, drought and fire. At the same time, many farming practices have the potential to put pressure on the environment, leading to soil depletion, water shortages and pollution, and loss of wildlife habitats and biodiversity.

Although GHG emissions from agriculture in the EU have decreased by 20% since 1990, further efforts are possible and will be required to meet the ambitious EU energy and climate agenda. It is important to further unlock the agricultural sector's potential to mitigate, adapt and make a positive contribution through GHG emission reduction, production efficiency measures including improvements in energy efficiency, biomass and renewable energy production, carbon sequestration and protection of carbon in soils based on innovation.

3.3. Territorial balance

A growing number of **rural areas** have become increasingly driven by factors outside agriculture due to diversification of their socio-economic structure. Nevertheless, agriculture remains an essential driver of the rural economy in much of the EU. The vitality and potential of many rural areas remain closely linked to the presence of a **competitive and dynamic farming sector**, attractive to young farmers. This is particularly the case in predominantly rural areas where the primary sector represents around 5% of value added and 16% of employment, and in the new Member States where it is important to consolidate the recent gains in productivity and fulfil the full potential of agriculture. In addition, agriculture plays an important role in rural areas through generating additional economic activities, with especially strong linkages with food processing, tourism and trade. In many regions agriculture is the basis of local traditions and of the social identity.

4. WHY DO WE NEED A REFORM?

The CAP has evolved, but further changes are necessary in order to respond to the newn**challenges** notably:

- to address rising concerns regarding both EU and global food security,
- to enhance the sustainable management of natural resources such as water, air, biodiversity and soil,
- to deal with both the increasing pressure on agricultural production conditions caused by ongoing climatic changes, as well as the need for farmers to reduce their contribution to GHG emissions, play an active role in mitigation and provide renewable energy,
- to retain and enhance competitiveness in a world characterized by **increasing globalisation, and rising price volatility while maintaining agricultural production across the whole European Union**,
[Clearly the European Commission accepts the ineluctability of that globalization and of the increasing volatility of agricultural prices resulting from it, as it is the price to pay to open new markets for its agri-food industries. But also because it is the EU overall strategy that it has been pursuing at the WTO as in its bilateral agreements: offering to open more its domestic agricultural market to DCs exports in exchange for the opening of DCs markets to the EU exports of non agricultural products and services. It is therefore highly questionable to write that such a context will permit to "*maintaining agricultural production across the whole European Union*".]
- to make best use of the diversity of EU farm structures and production systems, which has increased following EU enlargement, while maintaining its social, territorial and structuring role,
- to strengthen territorial and social cohesion in the rural areas of the European Union, notably through the promotion of employment and diversification,

- to make CAP support **equitable and balanced** between Member States and farmers by reducing disparities between Member States taking into account that a flat rate is not a feasible solution, and better targeted to active farmers,

- to pursue the simplification of the CAP implementation procedures and enhance control requirements and reduce the administrative burden for recipients of funds.

By responding to these challenges, the CAP will also contribute to the *EU 2020 Strategy* in terms of:

- *Smart growth* – by increasing resource efficiency and improving competitiveness through technological knowledge and innovation, developing high value added and quality products; developing green technologies and using information and communication technology, investing in training, providing incentives for social innovation in rural areas and improving uptake of research;
[Rather than searching an exit in technological innovations, it would be "smarter" and less costly to promote an exchange among farmers of their rich experiences.]

- *Sustainable growth* – by maintaining the food, feed and renewable production base, ensuring sustainable land management, providing environmental public goods, addressing biodiversity loss, promoting renewable energies, fostering animal and plant health, increasing resource efficiency through technological development and using results of research, further reducing emissions, enhancing carbon stocks and fully developing the potential of rural areas; and

- *Inclusive growth* – by unlocking economic potential in rural areas, developing local markets and jobs, accompanying the restructuring of agriculture and supporting farmers' income to maintain a sustainable agriculture throughout Europe[7].

This means **green growth** in the agricultural sector and the rural economy as a way to enhance well being by pursuing economic growth while preventing environmental degradation.

7 The CAP in particular will provide contributions to the EU flagship initiatives on "Low carbon, resource efficient Europe", "Innovation Union", and "An European Platform against Poverty".

5. OBJECTIVES OF THE FUTURE CAP

The three main objectives for the future CAP would thus be:

Objective 1: Viable food production

- to contribute to **farm incomes** and limit farm income variability, recalling that price and income volatility and natural risks are more marked than in most other sectors and farmers' incomes and profitability levels are on average below those in the rest of the economy[8].
[In the present and foreseeable context in the middle to long run of a high volatility of world agricultural prices in dollars, reinforced by that of exchange rates, the only way to ensure the stability of EU farmers incomes – and as a result of that of agri-food industries and services upstream and downstream agricultural production – is to implement variable levies on imports which will guarantee stable and

remunerative agricultural prices, set at the average production cost of the EU-27 for each product, that is at the level of the production cost of the 12-13% of farms producing half of the production of each product. The European Commission has shown that 80% of direct aids are received by around 20% of farms and that there is a strong correlation between the percentage of direct aids and the percentage of production. Which implies that 50% of the EU27 production is made by much less than 20% of farms.

Why then to set the remunerative price at the level of the EU-27 average production cost? Because the WTO Appellate Body has ruled the 5 December 2002, in the "Dairy products of Canada" case, that it is the criterion to take into account when assessing the dumping of an WTO Member: "*The question is not whether one or more individual milk producers, efficient or not, are selling CEM at a price above or below their individual costs of production. The issue is whether Canada, on a national basis, has respected its WTO obligations and, in particular, its commitment levels. It, therefore, seems to us that the benchmark should be a single, industry-wide cost of production figure, rather than an indefinite number of cost of production figures for each individual producer. The industry-wide figure enables cost of production data for producers, as a whole, to be aggregated into a single, national standard that can be used to assess Canada's compliance with its international obligations*" (paragraph 96). The Appellate Body has also judged that all the domestic subsidies benefitting also to the exported products are to be taken into account in assessing the average production cost without subsidies: "*If governmental action in support of the domestic market could be applied to subsidize export sales, without respecting the commitments Members made to limit the level of export subsidies, the value of these commitments would be undermined. Article 9.1(c) addresses this possibility by bringing, in some circumstances, governmental action in the domestic market within the scope of the "export subsidies" disciplines of Article 3.3*".

The previous ruling of 3 December 2001 of the WTO Appellate Body in the same case was even more explicit to underscore that domestic subsidies must be taken into account in assessing dumping: "*However, world market prices do not provide a valid basis for determining whether there are "payments", under Article 9.1(c) of the Agreement on Agriculture, for, it remains possible that the reason CEM can be sold at prices competitive with world market prices is precisely because sales of CEM involve subsidies that make it competitive. Thus, a comparison between CEM prices and world market prices gives no indication on the crucial question, namely, whether Canadian export production has been given an advantage. Furthermore, if the basis for comparison were world market prices, it would be possible for WTO Members to subsidize domestic inputs for export processing, while taking care to maintain the price of these inputs to the processors at a level which equalled or marginally exceeded world market prices. There would then be no "payments" under Article 9.1(c) of the Agreement on Agriculture and WTO Members could easily defeat the export subsidy commitments that they have undertaken in Article 3 of the Agreement on Agriculture* (paragraph 84)".

The conclusion to be drawn is that, to the contrary, the EU could export in the future without any dumping as long as world prices would be higher than its production costs without any subsidy.]

- to improve the **competitiveness** of the agricultural sector and to enhance its value share in the **food chain,** because the agricultural sector is highly fragmented compared to other sectors of the food chain which are better organised and have therefore a stronger bargaining power. In addition European farmers face competition from the world market while also having to respect high standards relating to environmental, food safety, quality and animal welfare objectives requested by European citizens.

- to compensate for production difficulties in areas with specific **natural constraints** because such regions are at increased risk of land abandonment.

Objective 2: Sustainable management of natural resources and climate action

- to guarantee sustainable production practices and secure the enhanced provision of **environmental public goods** as many of the public benefits generated through agriculture are not remunerated through the normal functioning of markets.
  [But agricultural markets never work "normally" without a specific regulation given the structural price inelasticity of food demand and supply and the EU agricultural markets will work less and less normally given the EU Commission willingness, here reasserted, to not regulate them, at least by the only appropriate means. On the other hand, with a good regulation, at the borders first – through an efficient import protection based on variable levies and the interdiction of dumping, including that hidden under alleged domestic decoupled aids –, by a domestic supply management and the promotion of sustainable production systems (at economic, social, environmental and animal welfare levels), the EU farmers will provide necessarily the "joint products" which are the "public goods" that we claim to isolate from the production activity, which is impossible and would be much more costly.]
- to foster **green growth** through **innovation** which requires adopting new technologies, developing new products, changing production processes, and supporting new patterns of demand, notably in the context of the emerging bioeconomy.
- to pursue **climate change** mitigation and adaptation actions thus enabling agriculture to respond to climate change. Because agriculture is particularly vulnerable to the impact of climate change, enabling the sector to better adapt to the effects of extreme weather fluctuations, can also reduce the negative effects of climate change.

Objective 3: Balanced territorial development

- to support rural employment and maintaining the social fabric of rural areas.

- to improve the rural economy and promote **diversification** to enable local actors to unlock their potential and to optimize the use of additional local resources.

- to allow for **structural diversity** in the farming systems, improve the conditions for small farms and develop local markets because in Europe, heterogeneous farm structures and production systems contribute to the attractiveness and identity of rural regions.

Achieving all these objectives will require that public support to the agricultural sector and rural areas be maintained. Policies set at European level are therefore needed in order to ensure fair conditions with a common set of objectives, principles and rules. Also, an agricultural policy designed at EU level provides for a more efficient use of budgetary resources than the coexistence of national policies. In addition to single market concerns, several other objectives are better addressed at trans-national level, e.g. cohesion across Member States and regions, cross-border environmental problems, and global challenges such as climate change, water management and biodiversity, animal health and welfare, food and feed safety, plant health and public health as well as consumer interests.

6. REFORM ORIENTATION

6.1. Future instruments

All potential options of the future CAP imply changes in present CAP instruments. This section explores how instruments could be defined in order to respond in a more efficient way to the above objectives.

Direct payments

The necessary adaptations of the direct payment system relate to the **redistribution**, **redesign** and better **targeting** of support, to add value and quality in spending. There is widespread agreement that the distribution of direct payments should be reviewed and made more understandable to the taxpayer. The criteria should be both economic, in order to fulfil the basic income function of direct payments, and environmental, so as to support for the provision of public goods.

The use of a single, flat rate direct payment was one of the proposals floated in the public debate. However, agricultural producers face very different economic and natural conditions across the EU which advocates for an equitable distribution of direct aids.

Thus the question is how 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. A 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.

The future of direct payments to be granted to active farmers could be based on the following principles, taking up the concept proposed by the European Parliament:

– **Basic income** support through the granting of a basic decoupled direct payment, providing a uniform level of obligatory support to all farmers in a Member State (or in a region) based on transferable entitlements that need to be activated by matching them with eligible agricultural land, plus fulfillment of cross-compliance requirements. Introducing an **upper ceiling** for direct payments received by large individual farms ("capping") should be considered to improve the distribution of payments between farmers. Disproportionate effects on large farms with high employment numbers could be mitigated by taking into account salaried labour intensity.

– Enhancement of environmental performance of the CAP through a mandatory "**greening**" component of direct payments by supporting environmental measures applicable across the whole of the EU territory. Priority should be given to actions addressing both climate and environment policy goals. These 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). In addition, the possibility of including the requirements of current NATURA 2000 areas and enhancing certain elements of GAEC standards should be analysed.

- 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.

- In order to take account of specific problems in certain regions where particular types of farming are considered particularly important for economic and/or social reasons, voluntary **coupled** support, may continue to be granted, within clearly defined limits (with support based on fixed areas, yields or number of heads).

- A simple and specific support scheme for **small farmers** should replace the current regime in order to enhance the competitiveness and the contribution to the vitality of rural areas and to cut the red tape.

- Simplification of **cross compliance** rules by providing farmers and administrations with a simpler and more comprehensive set of rules without watering down the concept of cross compliance itself. The inclusion of the Water Framework Directive within the scope of cross compliance will be considered once the Directive has been implemented and the operational obligations for farmers have been identified.

These changes in the design of direct payments should go hand in hand with a better definition and targeting of support to **active farmers** only, responding to the criticism of the European Court of Auditors.

Market measures

The public debate revealed a broad consensus on keeping the overall **market orientation** of the CAP
[Which market are we speaking about: the domestic market or the world market ? To speak of "market needs" *[in the French version]* is to adopt the position of "market economists" who are submitting economic policies to the diktat of "financial markets" and rating agencies as we have seen in Greece and now in Ireland, Spain and Portugal. In fact men only have needs which should not be submitted to the needs of increased profits of the "market". The more so when we are dealing with food.]
while also maintaining the general architecture of the market management tools. Indeed the 2009 dairy market crisis highlighted the important role that existing mechanisms play in supporting the market in times of crisis.
[This crisis has above all underscored the inept policy of the Commission to increase the quotas in view of their total elimination in April 2015 whereas the overproduction had justified to reduce them according to the only needs of the domestic market, and to maintain them as they have demonstrated their capacity to ensure a fair and stable income to producers at a rather low cost for the EU Budget, the bulk of this cost having concerned the export refunds which could have been avoided by reducing the quotas by around 10%.]
However, some specific adaptations appear necessary, most notably in **streamlining** and **simplifying** instruments currently in place, as well as in introducing new policy elements with respect to the functioning of the food chain.

Potential adaptations could include the extension of the intervention period, the use of disturbance clauses and private storage to other products, and other revisions to enhance efficiency and improve controls. Such market measures, and in particular the intervention instrument, should only be used as a safety net in case of price crisis and potential market disruption. A proposal for a revised quality policy will be presented by the end of 2010 to improve possibilities for farmers to communicate specific qualities or attributes of their product to consumers[9].

[9] See COM(2009) 234 on quality products and the forthcoming report on the application of the new organic farming Council Regulation (EC) No 834/2007.

The removal of dairy quotas will take place in 2015. Legal proposals are to be tabled shortly on the basis of the recommendations of the High Level Expert Group on Milk to enable long- term planning, and thereby ensuring stability, for the dairy sector.

[It is more than dubious that this stability will be ensured in the long run, on two levels:

1) The elimination of quotas will accelerate the "restructuring" of dairy farms, the elimination of small farms which play an essential role in country planning, particularly in mountainous areas, and will concentrate these large farms near ports from where the feedstuffs will be imported, the more so as large dairy farms, beyond 100 cows, cannot any longer feed their cows on grass.

2) The EU commitment to reduce by 54% on average its agricultural tariffs if the Doha Round is finalized will reduce the competitiveness of the EU dairy farms, the more so as this dairy chain benefits from the highest import protection as the average tariff on dairy products is 87%, which has had a deterrent effect so that the only imports have come from countries with preferential agreements. Some of these agreements were concluded during the GATT period (Australia, Canada, New-Zealand) for which the duties on cheese go from 137.5 €/t to 170 €/t, others were the result of the WTO Agreement on agriculture for which the duties are at 32% of the normal tariff, and finally others result from several bilateral agreements. In 2008 cheese have been imported mainly from Switzerland (47,000 t), Australia and New-Zeland providing 13,000 t each. Butter has been imported almost entirely from New-Zealand. Caseines and caseinates are imported from Belarus (32%), New-Zealand and Russia. On the whole the value of imports have only represented 14% of exports.

Table 2 – EU-27 trade in dairy products*: average from 2006 to 2008

	Production	Total trade in tonnes			Total trade in €1,000		
		Exports	Imports	Balance	Exports	Imports	Bamlance
Milk	153814000						
Cheese	8149567	562300	110100	450200	2406300	419167	1987133
Butter	1933033	230400	83700	146700	498967	149000	349967
Milk+cream	1622767**	1022700	31500	991200	2120667	45300	2075367
Caseines		67800	40700	27100	421467	203133	218333
Sub-total		1883200	266000	1615200	5447401	816480	4630800
Buttermilk		104365	10130	94235	164945	16200	148745
Lactoserum		377973	63230	314743	478702	21350	457352
All products		2365538	339360	2024178	6091048	854150	5236897

Source: Eurostat; * from cow milk; ** only skimmed and fat powder milk for production

We must underline the importance of trade in dairy products under the inward processing regime (IPR), which allows the EU dairy industries to import duty free the products re-exported after processing. This is particularly important for caseines and caseinates and explains the market share taken by imports coming from Belarus and Russia although the EU has no preferential agreement with them. Indeed, for all dairy products, imports under the IPR have been of €187 million on average from 2006 to 2008, or 21.9% of the €854 million of total dairy imports, and the corresponding exports under the IPR have been of €260 million, or 4.3% of the €6.091 billion of total dairy exports. But the imports of caseines and caseinates under IPR have been of €113 million, or of 48.5% of the €203 total imports of caseines and caseinates, and the corresponding exports under the IPR have been of €131 million or 31.1% of the €421 million of total exports of caseines and caseinates. On the contrary the imports of the main dairy products (milk+cream, butter and cheese) under IPR have been of only €74.3 million or 12.1% of the €613 million of imports and the corresponding exports under the IPR have been of €129 million, or 2.6% only of the €5.026 billion of exports. Clearly, if the Doha Round is finalized, the EU will likely place the imports of dairy products in the 4% of agricultural tariff lines allowed for "sensitive products" which will be subjected to a lower reduction of tariffs but in return additional tariff quotas will have to be opened at low tariffs so that in any case the tariff level will decline significantly. The more so as the euro will remain strong against the dollar.]

In the sugar and isoglucose sectors, the current regime is set to expire in 2014/15. Several options for the future, including a non-disruptive end of the quotas at a date to be defined, need to be examined to bring about increased efficiency and greater competitiveness for the sector.

Finally, improving the functioning of the **food supply chain** is necessary. Long term prospects for agriculture will not improve if farmers cannot reverse the steadily decreasing trend in their share of the value added generated by the food supply chain[10]. Indeed, the share of agriculture in the food supply chain has decreased from 29% in 2000 to 24% in 2005, while over the same period the share of the food industry, wholesale and the distribution sector have all increased.

Without well-functioning transmission of market signals, the long-term prospects of the farm sector and its share of the value added generated by the whole food chain are in jeopardy. Key issues of interest relate to the current imbalance of bargaining power along the chain, the level of competition at each stage in the chain, the contractual relations, the need for restructuring and consolidation of the farm sector, transparency, and the functioning of the agricultural commodity derivatives markets.

Rural Development

As an integral part of the CAP, rural development policy has proved its value by reinforcing the sustainability of the EU's farm sector and rural areas – economically, environmentally and socially.

There are strong calls for the policy to continue to fully integrate the constraints and opportunities of the environment and climate change and to deliver a wide range of benefits for farming, the countryside and wider society and contribute to:

- the **competitiveness of agriculture**: by promoting innovation and restructuring and by enabling the farm sector to become more resource efficient;

  [Here we are: the key word – restructuring – has been pronounced surreptitiously! Indeed in the context claimed by the Commission of an increased openness of the EU agricultural market to the rest of the world, the comptitiveness of the European agriculture can only be achieved from an accelerated "restructuring" of the farms size, with incalculable social and environmental impacts, which will not permit to reach at the same time the repeated objectives of promoting a sustainable agriculture at the social, environmental, balanced territorial development and animal welfare levels. And the elimination of most farmers will have at the same time dramatic negative impacts on the survival of most agroindustries and services upstream and downstream the agricultural production sector.]

- the **sustainable management of natural resources**, by taking care of the environment and agriculture's resilience to climate change and the countryside, and maintaining the production capacity of the land;

- the **balanced territorial development** of rural areas throughout the EU by empowering people in local areas, building capacity and improving local conditions and links between rural and urban areas.

Within this framework, **environment, climate change** and **innovation** should be guiding themes that steer the policy more than ever before. For example, investments should lift both economic and environmental performance; environmental measures should be more closely tailored to the specific needs of regions and even local areas such as Natura 2000 and HNV areas; measures to help unlock the potential of rural areas should pay close attention to innovative ideas for business and local governance. The new opportunities of local development such as alternative distribution channels which add value to local resources need

10 "A better functioning food supply chain in Europe" – COM(2009) 591, 28.10.2009.

to be seized. Support for developing direct sales and local markets should also be important. Addressing the specific needs of young farmers and new entrants will be a priority.

For the policy objectives to translate into results on the ground, **effective delivery mechanisms** are of paramount importance. The current strategic approach would be strengthened by setting quantified targets at EU and then at programme level**,** possibly coupled with incentives to be studied, such as for example performance reserve. Such a shift towards a more outcome based approach would best steer the policy towards EU priorities and show what it actually achieves. The set of indicators in the Common Monitoring and Evaluation Framework should be both simplified and improved for this purpose.

For the sake of efficiency, it will be essential to strengthen the **coherence** between rural development policy and other EU policies, while also simplifying and cutting red tape where possible. To this end, a **common strategic framework** for EU funds may be envisaged.

In terms of instruments, a wide range of tools would remain useful, from investments and infrastructure to payments for ecosystem services, support for LFA, environmental and climate change measures, support for innovation, knowledge transfer and capacity building, business creation, social and institutional development fostering production methods with a link to local specificities and considering specific needs of Member States to increase their economic efficiency. Improvements may consist in better linking measures together, especially with training, creating packages to address the needs of specific groups or areas (e.g. small farmers, mountain areas), facilitating the collaboration of farmers to achieve connectivity of landscape features for biodiversity and climate change adaptation ('green infrastructure'), or offering incentives such as preferential aid intensity rates for improved targeting.

In addition, a **risk management toolkit** should be included to deal more effectively with income uncertainties and market volatility that hamper the agricultural sector's possibility to invest in staying competitive. The toolkit would be made available to Member States to address both production and income risks, ranging from a new WTO green box compatible income stabilization tool, to strengthened support to insurance instruments and mutual funds. Coherence with other CAP instruments, in particular market instruments, will be ensured for new instruments introduced.

[The "*strengthened support to insurance instruments*" which would be "*WTO green box compatible*" has very little chances to be effective for several reasons:

1) The US experience shows that their insurance subsidies have always been notified in the amber box as they have not complied with the conditions of the WTO AoA (paragraphs 7 and 8 of Annex 2), as is attested by a report of the Congressional Research Service (CRS) of September 2010: "*To the extent that any crop-specific income or whole farm safety net program payments are triggered by any loss smaller than 30%, or provide reimbursement or indemnification of more than 70% of the loss, then the program does not qualify for green box exclusion and must either seek exemption under another "box" or be counted against the AMS limit. For example, under USDA's adjusted gross revenue insurance polices, producers may insure gross revenue coverage of up to 80% of historical revenue, and payments are triggered on losses of as little as 20% from historical average revenue. As a result, U.S. crop insurance subsidies (net indemnities) do not qualify for inclusion in the green box. Instead, they are notified to the WTO as amber box AMS, although they have always been exempted under the non-product-specific de minimis exclusion*" (Dennis A. Shields, Jim Monke and Randy Schnepf, *Farm Safety Net Programs: Issues for the Next Farm Bill*, Congressional Research Service, September 10, 2010). However this has only been possible by the US massive under-notification of its actual subsidies to crop insurance as this has been attested by many reports from the CRS, the GAO (Government Accounting Office), data from the annual federal budgetsand several researchers. Thus, for David Blandford and David Orden, "*There are additional expenditures on crop and revenue insurance programs arising from delivery costs paid to private insurance agents. These two latter costs are not reported in the notifications, but they have been quite substantial, averaging $895.5 million per year from 1995 through 2005, whereas net indemnities averaged $1,170.5 million. One can argue that the cost reimbursements excluded from the notifications are made to companies on behalf of the policyholders who are farm producers of the insured crops, and thus should be notified as non product-specific support*" (David Blandford and David Orden, *United States: Shadow WTO Agricultural Domestic Support Notifications*, IFPRI, November 2008, http://www.ifpri.org/publication/united-states-shadow-wto-agricultural-domestic-support-notifications). On the other hand the US has lied in notifying the insurance subsidies in the non-product-specific amber box (AMS) whereas the WTO Appellate Body has ruled in March 2005, in the cotton case, that they are "product-specific". Besides, as the *de minimis* exemption will be halved if the Doha Round is concluded – from 5% to 2.5% of the value of the whole agricultural production for the *de minimis* non product-specific support and from the value of a particular product for the product-specific *de minimis* support –, Chad Hart, of FAPRI, underlines that "*If such a reduction were to occur, crop insurance support could exceed the de minimis level on its own and be counted against support limits*" (Testimony before the Subcommittee on General Farm Commodities and Risk Management, U.S. House Committee on Agriculture, April 26, 2006).

2) Although the subsidies to agricultural insurances are far from being generalized within the EU, they may exceed in some cases the limits of criteria to be notified in the WTO AoA green box. And the European Commission regulation n°1998/2006 of 15 December 2006 on State aids authorizes subsidies up to 80% to 100% for some agricultural disasters (http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:358:0003:0021:FR:PDF). On the other hand the private insurance companies havemade clear that they could not intervene without substantial subsidies, including to get a public reinsurance. And, in its preliminary calculations the European does

not seem to consider that it would have to notify to the WTO the subsidies to private insurance companies, aligning its behavior on the US sub-notification practice.

More fundamentally one should question the condition foreseen by the paragraph 7 of the AoA Annex 2 for an agricultural insurance to be in the green box: "*c) The amount of any such payments shall relate solely to income; it shall not relate to the type or volume of production (including livestock units) undertaken by the producer; or to the prices, domestic or international, applying to such production; or to the factors of production employed*". Given that any agricultural income represents the gap between the agricultural revenues and agricultural costs, and that the revenues come from the multiplication of the production volume by their sales prices, who could explain how an aid to agricultural income could not be a function of the volume and/or price of productions? Even more as the EU and US agricultural prices are much lower than production costs without the subsidies from the amber and blue boxes which are granted to farmers for the same insured products.]

As regards the distribution of rural development support among Member States, the use of objective criteria should be considered, while limiting significant disruption from the current system.

It is also essential to further strengthen and simplify the **quality** (including organic farming) and **promotion** policies in order to enhance the competitiveness of the agricultural sector. Finally, the Innovation Union initiative should also allow new approaches to achieve the goals of the Europe 2020 Strategy for a smart, sustainable and inclusive economy[11].

Overall architecture

The instruments of the future CAP should continue to be structured around two pillars: this was also the overwhelming view expressed in the public debate and was clearly favoured by the Council, the EP and the CoR. The first pillar would contain the support paid to all farmers

11 Including the innovation partnership "agricultural productivity and sustainability".

on a yearly basis, whereas the 2nd pillar would remain the support tool for community objectives giving the Member States sufficient flexibility to respond to their specificities on a multi-annual, programming and contractual basis. In any case, the separation between the two pillars should bring about clarity, each pillar being complementary to the other without overlapping and focussing on efficiency.

6.2. Broad policy options

Three broad policy options, reflecting the main orientations of the public debate without being mutually exclusive, merit further consideration. They are presented here as indicative of potential paths whose impact will be analysed before final decisions are made. All three options are based on a two-pillar structure (with a different balance between pillars).

Option 1

This option would introduce further gradual changes to the current policy framework. It would build upon the well-functioning aspects of the policy and focus on

adjustments and improvements in the area of the most significant criticism to the CAP, i.e. the issue of equity in the distribution of direct payments between Member States.
[There is a huge misunderstanding about the direct aids received in the new Member States of EU-12: everybody is convinced that these direct aids will be aligned progressively on the same level as in the EU-15, from 25% in 2004 to 100% in 2013, but that is not true. The alignment on the EU-15 concerns only the level of the unit direct aid – per tonne of cereals, oilseeds, pulses, per cattle head and per tonne of milk – in the base period. But this progressive unification of the unit aid will continue to apply at quite different levels of yield for arable crops, of cattle heads, of milk yield per cow and of milk quotas levels. En outre les périodes de base sont différentes entre l'UE-15 et l'UE-12. The following table 3 – drawn from the distribution of EU-27 total agricultural expenditures (EU Budget plus State aids) between the EU-15 and EU-12 from 2000 to 2009 – shows that, in 2009, direct aids per ha were 3.5 times larger in the EU-15 than in the EU12 and direct aids per active agricultural worker were 8.6 times larger. And the total agricultural expenditures, including State aids, were 2.3 times larger in the EU-15 than in the EU-12 and that per active agricultural worker were 5.6 times larger. Clearly direct aids continue to rise in 2010 and would do it up to 2013 but not much now as all EU-12 countries have used the liberty they had to complement the level of the EU direct aids by the transfer from art of the rural development funds received from the EU and to add "complementary national direct payments" – two so-called "top-ups" –, which has reduced by as much the funds for other objectives.

Table 3 – Gaps in direct aids per ha and agricultural active worker between EU-15 and EU-12: 2008 and 2009

	UE-12		UE-15	
	2008	2009	2008	2009
General indicators in 2008				
Population (million)	103.300		394.345	
Used agricultural area (million ha)	51.653		127.160	
Agricultural active workers (full time equiv.): 1000	5,928		5,918	
Distribution of total agricultural expenditures: € million				
Markets interventions	274	1,140	5,169	5,865
Direct aids directes (coupled and decoupled)	3,194	4,071	28,234	28,786
Rural development	2,537	3,498	8,602	8,671
State aids*	2,019	2,019	8,975	8,975
Total agricultural expenditures	8,024	10,728	57,551	60,043
Direct aids and total agricultural expenditures in € per ha and agricultural active worker				
Direct aid per hectare	61.8	78.8	270.3	275.8
Direct aid per agricultural active worker	58.9	68.7	580.7	592.7
Total agricultural expenditures per hectare	155.3	207.7	452.6	472.2
" per agricultural active worker	135.4	181.0	972.5	1,014.6

Source: DG Agri and Solidarité research. Lacking data on State aids for 2009, we have used those of 2008.

It is therefore likely that in 2013 the EU-15 direct aids and total agricultural expenditures per ha and agricultural active worker will remain at least twice as large as in the EU-12. Furthermore, as agricultural products are circulating freely in the EU-27, the EU-12 farmers and agri-food industries are still enduring a huge dumping from the EU-15 products exported to the EU-12. Even if the dumping rate was much higher before 2000 since the EU15 exports were still benefitting from export refunds for their exports to the EU-12 countries, and the refunds were still large at that time. However, as it is politically impossible to raise the EU-12 direct aids per agricultural active worker at the average level of the EU-15 because the EU-12 farmers income would be significantly higher than their average national income, another means to rebalance the benefits of the CAP for the EU-12 should be found. It could take the form of additional subsidies to improve the agricultural infrastructures, research and development so as to raise indirectly the competitiveness of the EU-12 farmers and agro-industries.

Table 4 – Evolution of the EU-27 agricultural expenditures from 2000 to 2009

Millions d'€	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Market interventions	10654	10258	8074	10060	8473	8537	8124	5420	5443	7005
" export refunds	5646	3401	3432	3730	3384	3052	2494	1445	925	650
" sugar restructuring fund								551	1284	3018
" other market intervent.	5008	6857	4642	6330	5089	5485	5630	3424	3234	3337
Decoupled aids						1449	16263	30369	31414	32794
" SPS+SAPS: green box*	-	-	-	-	-	1449	16263	30202	31208	32529
" separate sugar payment								167	206	253
" separate F&V payments										12
Other direct aids	25529	27430	29633	29692	29825	33701	17788	6677	6155	6320
" of which amber box	3306	5748	4608	3912	5390	5617	431	997		
" " blue box	22223	21682	24193	25780	24435	28084	13876	5697		
Miscellaneous*			20	49	260	384	92	359	468	353
Rural development	4764	5753	6080	7174	8968	10237	11329	10869	10524	8738
" in EAGGF-Guarantee	4176	4363	4419	4706	4749	4915	7739	1269	3	-
" in EAGGF-Guidance	588	1359	1550	2254	2962	3097	3589	3518	1982	472
" in SAPARD + TDRI**		30	111	214	1257	2227				
" in EAFRD								6082	8539	8209
EAGGF-Guarant or EAGF	40359	42051	42146	44507	43307	48986	50006	43713	43465	46472
Common agric. budget	40947	43440	43807	46975	47526	54310	53595	53694	53809	55210
State aids to agriculture	12497	12507	10359	10116	13958	12263	11922	12483	11766	11766
Total agric. subsidies	53444	55947	54166	57091	61484	66573	65517	66223	65575	66976

Sources: http://eur-lex.europa.eu/budget/www/index-fr.htm; http://ec.europa.eu/comm/competition/state_aid/studies_reports/stat_tables.html; http://ec.europa.eu/agriculture/agrista/rurdev2006/RD_Report_2006.pdf; * Mainly pre-adhesion and administration of the CAP. **: Temporary Rural Development Instrument

Table 5 – Evolution of the EU-12 agricultural expenditures from 2000 to 2009

Millions d'€	2004	2005	2006	2007	2008	2009
Market interventions	15	544	805	244	274	1140
" export refunds	15	210	275	164	154	64
" sugar restructuring fund					196	688
" other market interventions		334	530	80	120	388
Direct payments	71	1649	1832	2461	3194	4071
" SAPS: alleged green box	-	1449	1721	2250	2974	3723
" SPS (Slovenia and Malta)	57	55	68	69	57	63
" Separate sugar payment				167	206	253
" Other direct aids	14	145	43	44	22	32
Rural development	1474	2096	4088	3010	2537	3498
" in EAGGF-Guarantee		735	2116	1298	14	67
" in EAGGF-Guidance	217	290				
" in EAFRD*				1712	2523	3431
" in SAPARD + TDRI**	1257	1071	1972			
EAGGF-Guarantee	86	2928	4753	4003	3482	5211
Common agricultural budget	1617	4289	6725	5715	6005	
State aids	2915	3210	2688	3486	2791	
" CNDPs (top-ups): coupled				526	372	
" CNDPs (top-ups): decoupled	1159	1799	1870	1996	2343	
" others	1756	1411	818	964	76	
"minus transfers from rural development	-353	-588	-644	-916	-772	-1064
" net State aids	2562	2622	2044	2570	2019	
Total agricultural subsidies	4179	6911	8769	8285	8024	

Sources: http://eur-lex.europa.eu/budget/www/index-fr.htm; http://ec.europa.eu/comm/competition/state_aid/studies_reports/stat_tables.html; http://ec.europa.eu/agriculture/agrista/rurdev2006/RD_Report_2006.pdf; * Rural development was no longer financed by EAGGF from 2007 but by the EAFRD and the data for the actual expenditures have been aggregated for 2007 and 2008 so that we have divided them in equal amounts.

Table 6 – Evolution of the EU-15 agricultural expenditures from 2000 to 2009

Millions d'€	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Market interventions	10654	10258	8074	10060	8446	7993	7319	5881	5169	5865
" export refunds	5646	3401	3432	3730	3369	2842	2219	1281	771	586
" sugar restructuring fund									1088	2319
" other market interventions	5008	6857	4642	6330	5077	5151	5100	4600	3310	2949
Decoupled aids	-	-	-	-	-	-	14542	28119	28234	28786
" SPS: alleged green box	-	-	-	-	-	-	14542	28119	28234	28774
" separate F&V payments										12
Other direct aids	25529	27430	29633	29692	29811	33556	17745	6633	6133	6288
Miscellaneous*			20	49	260	384	92	359	468	385
Rural development	4764	5723	5969	6960	7494	7185	7241	7859	8602	8671
" in EAGGF-Guarantee	4176	4363	4419	4706	4749	4896	6169	-	-30	
" in EAGGF-Guidance	588	1359	1550	2254	2995	3779	1647	90	2616	
" in EAFRD								7859	6016	
EAGGF-Guarantee	40437	42083	43214	44461	43266	46829	45867	40992	39974	41324
Common agricultural budget	40437	42083	43214	44461	46261	50608	47514	48941	48576	51068
State aids to agriculture	12497	12507	10359	10116	11044	9054	9234	8997	8975	8975
Total agricultural subsidies	48553	54590	55277	57093	57305	59662	56748	57938	57551	60043

Sources: http://eur-lex.europa.eu/budget/www/index-fr.htm; http://ec.europa.eu/comm/competition/state_aid/studies_reports/stat_tables.html; http://ec.europa.eu/agriculture/agrista/rurdev2006/RD_Report_2006.pdf; * Mainly pre-adhesion and administration of the CAP]

This option would ensure continuity and stability with the current CAP, thus facilitating long-term planning for operators along the food chain.

Option 2

Another alternative would be to capture the opportunity for reform, and make major overhauls of the policy in order to ensure that it becomes more **sustainable**, and that the **balance** between different policy objectives, farmers and Member States is better met. This would be done through more **targeted** measures which would also be more understandable to the EU citizen. This option would imply greater spending efficiency and greater focus on the EU value added. Such an orientation would allow to address EU economic, environmental and social challenges and strengthen the contribution of agriculture and rural areas to the objectives of Europe 2020 of smart, sustainable and inclusive growth.

Option 3

Another option would be a more far reaching reform of the CAP with a strong focus on environmental and climate change objectives, while moving away gradually from income support and most market measures. Providing a clear financial focus on environmental and climate change issues through the Rural Development policy framework would encourage the creation of regional strategies in order to assure the implementation of EU objectives.
[The very idea to present as a reform option "*moving away gradually from income support and most market measures*" is absurd, since most market measures have already disappeared and as the deregulation is going on: with the decoupling of direct aids, the single CMO (common market organization), the elimination of quotas and the commitment to open more the domestic market to exporters of the rest of the world, all this in a context of increasing volatility of agricultural prices and exchange rates. When it is clear that such a context can only accelerate the elimination of farmers, how could it be possible to reach the ambitious objectives reiterated in the fields of environment and rural development?]

The above options have clear, but different advantages and drawbacks in fulfilling the objectives of the new CAP as presented in this Communication. They will need to be evaluated on the basis of their economic, environmental and social impacts.

7. CONCLUSIONS

The Commission's response to the debate on the future CAP comes in the form of the present Communication, which outlines options and launches the debate with the other institutions and with stakeholders. The legal proposals will be presented in 2011.

The options for reform consist of both major changes that require a new design, and improvements of the elements that have proven their usefulness in their current design. On this basis, the future CAP should become a more sustainable, more balanced, better targeted, simpler and more effective policy, more accountable to the needs and expectations of the EU citizens.

ANNEX

DESCRIPTION OF THE THREE BROAD POLICY OPTIONS

Direct payments **Market**
measures **Rural**
development

)ption 1 Introduce more equity in the distribution of direct payments between Member States (while leaving unchanged the current direct payment system)

Option 2 Introduce more equity in the distribution of direct payments between Member States and a substantial change in their design.

Direct payments would be composed of:

- a basic rate serving as income support,
- a compulsory additional aid for specific "greening" public goods through simple, generalized, annual and non- contractual agri-environmental actions based on the supplementary costs for carrying out these actions,
- an additional payment to compensate for specific natural constraints,
- and a voluntary coupled support component for specific sectors and regions[12],

Introduce a new scheme for small farms.
Introduce a capping of the basic rate, while also considering the contribution of large farms to rural employment.

Option 3 Phase-out direct payments in their current form

Provide instead limited payments for environmental public goods and additional specific natural constraints payments
Strengthen risk management tools
Streamline and simplify existing market instruments where appropriate
Improve and simplify existing market instruments where appropriate
Abolish all market measures, with the potential exception of disturbance clauses that could be activated in times of severe crises
Maintain the Health Check orientation of increasing funding for meeting the challenges related to climate change, water, biodiversity and renewable energy, and innovation.
Adjust and complement existing instruments to be better aligned with EU priorities, with support focused on environment, climate change and/or restructuring and innovation, and to enhance regional/local initiatives.
Strengthen existing risk management tools and introduce an optional WTO green box compatible income stabilization tool to compensate for substantial income losses.
Some redistribution of funds between Member States based on objective criteria could be envisaged.
The measures would be mainly focused on climate change and environment aspects

12 This would be equivalent to today's coupled support paid through Article 68 and other coupled aid measures.