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NOTICE TO MEMBERS

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Subject: The CAP towards 2020: Working Paper on the EC Communication of 18 November 2010

This document is an **abstract of a fuller briefing note** written by the Policy Department B for the Working Group on Common Agricultural Policy Reform, as agreed by AGRI Coordinators on 27 October 2010. The purpose of this document is **to facilitate MEPs' work** on the next reform of the CAP. It analyses the Commission's Communication of 18 November 2010 on the CAP towards 2020 and suggests a **series of questions** on key issues of interest.

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I. GENERAL TOPICS

1. LEGITIMISING THE CAP: NEW CHALLENGES AND NEW OBJECTIVES

Proposals (Sections 3 and 5)

The Communication of 18 November sets out **three key challenges** for agriculture (Section 3):

- To preserve Europe's capacity to deliver **food security**. In a world characterised by increasing globalisation with rising price volatility, the CAP has to improve the competitiveness of the agricultural sector, enhance its value share in the food chain, ensure a diverse and high quality supply of food and address low incomes in the light of the economic crisis.
- To help farming adapt and make a positive contribution to address **climate change** (through carbon sequestration, biomass production and reducing GHG emissions) and **environmental challenges** (such as depletion of soil, water and air quality, and biodiversity).
- To mitigate the **territorial imbalances**, improving the vitality and economic potential of rural areas, in particular in "predominantly rural regions".

From these three challenges are derived **three objectives**, each unpacked into other sub-objectives (Section 5):

- **Viable food production**. This objective is broken down into three policy sub-objectives: to contribute to farm incomes and limit volatility; to improve competitiveness of the agricultural sector and its bargaining power in the food value chain; and to maintain the spatial distribution of agricultural production, including in areas with natural constraints where there is a risk of land abandonment.
- **Sustainable management of natural resources and climate action**. This objective is made up of three elements: securing the provision of environmental public goods by agriculture and forestry; fostering green growth through innovation; and pursuing climate change mitigation and adaptation actions.
- **Balanced territorial development**. This objective is in turn distributed across three rural development sub-objectives: support for rural employment; promotion of rural economic diversification; and encouragement of structural diversity in farming systems through improving conditions for small farms and local markets.

1. QUESTIONS ON CAP OBJECTIVES

- *How will the multiple objectives proposed by the Communication be prioritised in financial terms?*
- *How will the new objectives relate to both CAP Pillars and the mechanisms within them? In particular, how does this relate to the process of better targeting?*
- *Is it intended that this round of reform will set a path for the future CAP, moving it away from its traditional agricultural and economic focus and more towards environmental, territorial or even social objectives?*
- *What would failing to move the CAP beyond its status quo position represent in terms of the missed opportunity to improve its policy effectiveness and legitimise its budget?*

2. CAP ARCHITECTURE

Proposals (Section 6.1)

The Communication retains both pillars: annual direct payments and markets measures in the first pillar; multiannual rural development measures in the second pillar.

2. QUESTIONS ON CAP ARCHITECTURE

- *Is it correct to assume that 'co-financing' will be confined solely to the second pillar?*
- *If the basis on which the pillars are to be defined is their objectives, would it not be logical to create a third pillar for markets measures?*

3. SCENARIOS FOR THE CAP REFORM

Proposal (Section 6.2)

Three broad policy options are presented as potential paths whose impact will be analysed before final decisions are made:

- **Option 1 - Continuity** (Current CAP with gradual adjustments): This option would be restricted to resolving some current discrepancies, such as distributing direct payments more equitably between Member States and farmers. Even here, this redistribution would be limited, thereby ensuring continuity and stability within the current CAP.
- **Option 2 - Evolution** (Balanced CAP reform): Another alternative would be to make major overhauls of the CAP in order to ensure that it becomes more sustainable, and reshapes the balance between different policy objectives, farmers and Member States, in

particular by introducing a more targeted approach to priorities. This option would imply greater spending efficiency and greater focus on the EU value added (see §20).

- **Option 3 - Break up** (Rural and agri-environmental policy): This more far reaching reform would go further, moving away from income support and most of the market measures, and giving priority to environmental and climate change objectives, rather than the economic and social dimensions of the CAP.

3. QUESTIONS ON THE SCENARIOS

- *Is the second option the best route in the opinion of the Commission?*
- *To what extent is it possible to regard the main distinguishing feature of the three options as being the relative weight of each component within the new model of Pillar 1 direct payments? Under this hypothesis, to what extent will the final decision between the options be down to the Member States?*
- *Will the Impact Assessment accompanying the legislative proposals evaluate all three options separately or could hybrids, combining certain aspects of the different options, be included?*

4. TRANSITIONAL PERIOD

Proposal (Section 6.1)

The Communication does not contain any references to a transitional period in order to implement the new CAP. However, it does mention the Commission's intention to avoid "major disruptive changes" inside the **first pillar**. It proposes "a system that limits the gains and losses of Member States by guaranteeing that farmers in all MS receive on average a minimum share of the EU-wide average level of direct payments".

In regard to the distribution of rural development support (**second pillar**) among Member States, the Communication propose the use of objective criteria, "while limiting significant disruption from the current system".

4. QUESTIONS ON THE TRANSITIONAL PERIOD

- *What will be the period for 'phasing in' the new mechanisms?*
- *Which mechanisms will be affected by any possible transitional arrangements?*
- *Will Member States be able to decide the pace of any transition concerning the direct aids scheme inside the first pillar?*

5. COMPATIBILITY WITH SIMPLIFICATION AGENDA

Proposal (Section 1, 6.1 and Annex)

The main, specific references to simplification in the Communication appear in relation to cross compliance, market measures and rural development. The first proposes providing farmers and administrations with a simpler and more comprehensive set of rules, without watering down the concept of cross compliance itself. The second cites the need for "*streamlining and simplifying*" the market measure instruments currently in place. The third suggests a simplified set of indicators in the Common Monitoring and Evaluation Framework. Continuation of the work on simplification is also cited as an essential element in ensuring controllability of the measures proposed.

5. QUESTIONS ON COMPATIBILITY WITH SIMPLIFICATION AGENDA

- *To what extent are proposals for a multi-tiered Pillar 1 (with compulsory and voluntary elements), capping with labour adjustment and extra payments for small farmers consistent with the 'simplification' agenda?*
- *Similarly, to what extent does the proposal to target support exclusively to 'active farmers' fit with a drive for further CAP simplification, given the potential difficulties in finding a robust definition and then implementing its conditions?*
- *Under a generalised, area-based payment system, why would it be necessary to retain the complexity of entitlements?*

6. TOWARDS A CAP FOR PUBLIC GOODS

Proposal (Sections 1, 2, 3, 4, 5, 6 and Annex)

One of the strategic aims of the proposal is to support farming communities that provide European citizens with quality and diversity of food produced sustainably, in line with Europe's environmental, water and animal welfare ambitions.

The Communication has as its basis the idea that the future system of remunerating collective services that '*active farmers*' provide to society would increase the effectiveness and efficiency of support and further legitimise the CAP. To achieve this, it is proposed that the future CAP should contain a greener and more equitably distributed first pillar and a second pillar focusing more on competitiveness and innovation, climate change and the environment.

6. QUESTIONS ON PUBLIC GOODS

- *Why is animal welfare not included in the requirements under the greening component?*
- *How will it be possible to evaluate the efficiency of delivery of public goods between the mechanisms across the two respective pillars?*

II. FUTURE INSTRUMENTS: DIRECT PAYMENTS

7. General approach and distribution of direct payments

Proposal (Sections 1, 2 and 6.1)

The Communication makes explicit the need for a **greener and more equitably distributed first pillar** (Section 1). In this sense, the Commission is proposing adjustments to the current configuration of decoupled payments, already regarded, in principle, as being capable of providing basic income support and delivering the basic public goods desired by European society (Section 2). The future first pillar should be based on a model of support, paid on an annual basis to all active farmers, adapted on the basis of **two fundamental objectives**:

- to reach a more equitable **distribution** of the direct payment support;
- to **redesign and better target** support to make it more consistent with its economic (basic income support), environmental (provision of environmental public goods) and territorial functions.

In relation to the distribution objective, the Communication proposes a system that limits the gains and losses of national envelopes *“by guaranteeing that farmers in all Member States receive on average a minimum share of the EU-wide average level of direct payments”*.

As regards the second objective, the new direct payments appears to be composed of **four main components**: basic income component, green component, additional income payments in *“areas with specific natural constraints”* and a limited voluntary coupled support (see Annex).

A simple and **specific support scheme for small farmers** is proposed to enhance the competitiveness and the contribution to the vitality of rural areas and to cut red tape.

Finally, the Communication includes a specific objective of **simplifying cross-compliance rules**, which is consistent with the overarching aim of CAP simplification, more generally.

7. QUESTIONS ON GENERAL APPROACH AND DISTRIBUTION OF DIRECT PAYMENTS

- *On which objective criteria (e.g. agricultural output, area or employment) will the budget for direct payments be allocated between Member States?*
- *How will the proposed system to limit 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" work in practice?*
- *What will be the balance of expenditure between the four components of the new model of direct support?*
- *What degree of flexibility will be granted to Member States in implementing the different components of direct support?*

8. BASIC COMPONENT OF DIRECT PAYMENTS

Proposal (Section 6.1)

Basic income support will be granted through 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 the fulfilment of cross-compliance requirements.

8. QUESTIONS ON BASIC COMPONENT OF DIRECT PAYMENTS (1st PILLAR)

- *What assumptions have been made regarding the eligibility of land for this component?*
- *What is the weight of this component in the proposed model?*

9. GREENING COMPONENT

Proposal (Section 6.1 and Annex)

The Communication indicates that a major feature of the Commission's proposed reforms will be the "*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*".

Such a 'greening' component "*could take the form of simple, generalised, non-contractual and annual agri-environmental actions that go beyond cross compliance*" (Section 6.1), based on the supplementary costs for carrying out these actions (Annex). The Communication also

includes the possibility of including the requirements of current Natura 2000 areas and enhancing certain elements of the GAEC standards.

9. QUESTIONS ON THE GREENING COMPONENT OF DIRECT PAYMENTS

- *How will the Natura 2000 requirements and enhanced GAEC standards included in the greening component be implemented?*
- *What will be the differences between the cross compliance in the basic income component, the environmental requirements in the greening component and the baseline of the more targeted agri-environmental measures in the second pillar?*
- *What evidence does the Commission have to conclude that the proposed new "greening" component in Pillar 1 will deliver environmental public goods more efficiently than redeploying the same resources towards properly targeted schemes in Pillar 2?*

10. PAYMENTS FOR 'AREAS WITH SPECIFIC NATURAL CONSTRAINTS'

Proposal (Section 6.1 and Annex)

The third component of the proposed new system of direct payments envisages an additional income support to all farmers in **areas with specific natural constraints**, in the form of an area-based payment. This payment would be complementary to the support given under the second pillar.

10. QUESTIONS ON PAYMENTS FOR 'AREAS WITH SPECIFIC NATURAL CONSTRAINTS'

- *Will the new classification of Less Favoured Areas be ready before the legislative proposals on the future of the CAP?*
- *Which elements of the LFA farming support will remain in the second pillar?*

11. RESIDUAL VOLUNTARY COUPLED ELEMENT

Proposal (Section 6.1 and Annex)

A fourth tier would be a limited voluntary coupled support that may continue to be granted *“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”*.

11. QUESTIONS ON THE VOLUNTARY COUPLED ELEMENT

- *Which elements of the current Art. 68 will be support by the new coupled voluntary aid?*
- *Would this component provide support to livestock producers with no eligible hectares in continuity with the current situation?*

12. DIRECT PAYMENTS BENEFICIARIES

Proposal (Sections 4 and 6.1)

The Communication proposes targeting support to "active farmers", responding to the criticism of the European Courts of Auditors - ECA.

12. QUESTIONS ON THE DIRECT PAYMENTS BENEFICIARIES

- *How does the Commission intend to improve the definition and targeting of support to "active farmers"?*
- *Given the increased focus on the delivery of public goods, to what extent is a more inclusive definition required, encompassing all those responsible for actively managing the land?*
- *Why has the Commission not proposed a voluntary EU framework defining a European statute of "farmers" and/or the "priorities beneficiaries" for the CAP aids?*
- *What sort of existing beneficiaries do the Commission want to disqualify through this initiative: landlord claimants, charities or trusts that have land kept in GAEC, or diversified enterprises whose income comes mainly from off-farm activities?*

13. DIRECT PAYMENTS TO SMALL FARMERS

Proposal (Sections 3.3, 5 - Objective 3, and 6.1)

Under the sections on territorial balance (Sections 3.3 and 5 - Objective 3), the Communication underlines the importance of rural employment as the basis of the social fabric of rural areas, and the structural diversity in farming systems. In this context, small farms play a specific role in contributing to the attractiveness and identity of rural regions (Section 5). The Communication aims to improve the conditions for small farmers and develop local markets. It also proposes a new scheme (inside the first pillar) specifically to support small farmers in order to enhance their competitiveness and the contribution to the vitality of rural areas, as well as cutting red tape (Section 6.1).

13. QUESTIONS ON SMALL FARMERS

- *What is the detailed definition of "small farmer"?*
- *Is the notion of "small farmer" here synonymous with subsistence farms and/or semi-subsistence farms?*
- *Will the support to small farmers inside the first pillar be calculated on the basis of a share of the basic income support?*

14. CAPPING OF DIRECT PAYMENTS

Proposal (Section 6.1 and Annex)

The Communication proposes the adoption of an **upper ceiling for direct payments** received by large individual farms, although exemptions may be possible for large farms with high employment numbers, as **salaried labour intensity** will be taken into account.

14. QUESTIONS ON CAPPING OF DIRECT PAYMENTS

- *Why is the capping restricted solely to the basic component?*
- *What should be the threshold for the upper ceiling applied to the basic income support payments?*
- *How could the exemption based on 'salaried labour intensity' be applied in practice?*
- *Given the historic resistance previous 'capping' proposals have faced from those Member States with the highest distribution of large farms, how will the Commission ensure this idea navigates its way through to the final reform agreement?*

III. FUTURE INSTRUMENTS: MARKETS

15. MARKET INSTRUMENTS

Proposal (Section 6.1)

The Communication outlines three policy fields concerning markets measures:

- Potential **adaptations of the single CMO** including the extension of the intervention period, the use of disturbance clauses and private storage to new products. Such market measures, and in particular the public intervention, should only be used as a safety net in case of price crises and potential market disruption.

- Additionally, the "*quality package*" to be presented by the end of 2010 would improve possibilities for farmers to better communicate the qualities, characteristics and attributes of agricultural products to consumers.
- Acknowledging that improving the functioning of the **food supply chain** is necessary, it lists key issues of interest such as the imbalance of bargaining power, contractual relations, the need for restructuring and consolidation of the farm sector, transparency, and the functioning of the agricultural commodity derivatives markets. The milk package to be presented before the end of 2010 will have to specify these measures.

15. QUESTIONS ON MARKET INSTRUMENTS

- *Will it be possible to replace the safety nets and others markets measures by the risk management toolkit and commodity derivatives markets?*
- *Will the new mechanisms to improve the functioning of the food supply chain, proposed for the milk sector, be extended to others sectors?*
- *Will the future framework of derivatives markets, mentioned in the market measures section, be included within the Single CMO?*
- *Why is the risk management toolkit not incorporated within the Single CMO?*

16. FOOD AND AID FOR DEPRIVED PERSONS

Proposal (Section 4)

The Communication just mentions in a footnote that the CAP will provide contributions to the EU flagship initiative on "*An European Platform against poverty*" inside the *EU 2020 Strategy - Inclusive growth*.

16. QUESTIONS ON FOOD AND AID FOR DEPRIVED PERSONS

- *To what extent is there scope, within the proposals for the future CAP, to include measures to enable a healthier diet to be made available to particularly the poorest consumers in the EU?*
- *Will the new CAP include the current food aid scheme for needy people?*
- *Would it be appropriate to introduce this programme within the Single CMO?*

17. WELL FUNCTIONING TRANSMISSION OF MARKET SIGNALS

Proposal (Sections 5 and 6.1)

The Communication includes, as part of Objective 1: "*Viable food production*", the need to enhance the value of agriculture's share in the food chain in order to redress the balance of power, since agriculture is dispersed compared to other sectors along the chain.

In reference to the 2009 crisis in the dairy market, the Communication shows the need to introduce new policy elements with respect to the functioning of the food chain.

17. QUESTIONS ON WELL FUNCTIONING TRANSMISSION OF MARKET SIGNAL AND DERIVATIVES MARKET

- *Can the “milk package“ be considered as a precursor to the regulations that will then be extended to the other sectors?*

18. DERIVATIVES MARKETS

Proposal (Section 6.1)

The Communication lists, in the section on market measures, the functioning of the agricultural commodities derivatives markets as one of the key issues to be pursued.

18. QUESTIONS ON DERIVATIVES MARKETS

- *Will the development of derivatives markets that the Communication proposes, under the heading of market measures, be introduced in the Single CMO?*
- *How does the proposal to improve the functioning of the agricultural commodities derivatives market relate to the Commission proposal on OTC derivatives?*
- *How will the proposal seek to encourage farmers to access these tools?*

IV. FUTURE INSTRUMENTS: RURAL DEVELOPMENT POLICY (2nd PILLAR)

19. RURAL DEVELOPMENT INSTRUMENTS

Proposal (Section 6.1 and Annex)

As part of the proposals for rural development policy, the list of themes is expanded, with a notable new emphasis on innovation, and so too is the number of measures, with a **risk**

management toolkit added to the menu. Such a 'toolkit' would be aimed at dealing with income uncertainties and market volatility, with these mechanisms being made available to Member States to address both production and income risks, ranging from a WTO green box compatible income stabilisation tool, to strengthened support for insurance and mutual funds.

The Communication also proposes new **effective delivery mechanisms**, suggesting that the current measures in the four axes would be targeted in a different way by setting quantified EU-level and programme-level targets, tied to incentives, to achieve a more outcome-based result. The potential benefits of a more locally-led approach are cited before the Communication stresses the importance of **strengthened coherence** between rural development policy and other EU policies, with a **common strategic framework** for EU funds being envisaged. It is also proposed that the set of indicators in the Common Monitoring and Evaluation Framework should be both simplified and improved for this purpose.

Consideration of using **objective criteria** for the future distribution of rural development funding is proposed, although the Commission feels it would have to limit any resulting "*significant disruption*" from the current system.

19. QUESTIONS ON RURAL DEVELOPMENT POLICY

- *Since the Communication makes no reference to the rural development axes, does this imply that they will be replaced by a set of priorities or measures? If this is the case, what priorities will be set and what will be the measures?*
- *Will the transfer of part of the agri-environment measures into Pillar 1 be accompanied by a shift of resources?*
- *How does the Commission intend to set EU and programme level quantitative targets for the evaluation of rural development initiatives? Will the targets be linked to the overall priorities or to the different measures available?*
- *How will the monitoring system, based on indicators, be implemented on the specific measures?*
- *How will the proposed system of incentives, linked to the evaluation, work in practice? How might the proposed performance reserve be implemented and would resources be expected to move between different Member States as part of its operation?*
- *How will the Commission maintain separation and avoid overlaps between the LFA payments retained in rural development policy and the new supports for 'areas with specific natural constraints' proposed for Pillar 1?*
- *Which objective criteria should be used to provide the basis for future Pillar 2 allocations?*
- *How long would it be necessary to impose the limitations to the "significant disruption" caused by the redistribution of funds following a change to the allocation key?*
- *Why is the risk management toolkit included in the second pillar rather than the first?*

- *Based on the initial impact assessment analysis, how much resources will be diverted away from the existing rural development objectives to address the new innovation theme?*

V. SOME MISSED TOPICS FOR THE 2013 SCENARIO

20. BUDGETARY CONCERNS

Proposal (Sections 1, 3.3, 5, 6.1)

The Communication does not mention the budgetary concerns of the new CAP but does make the case for an EU-level expenditure on agriculture (Section 5). It mentions the Budget Review Communication in general terms (Section 1) and the CAP Communication also recalls the "*added value*" principle of EU spending (Sections 6.1 and 6.2). It also advocates an "*equitable distribution*" of first and second pillar aids between Member States and farmers (Sections 1, 3.3 and 6.1).

20. QUESTIONS ON THE BUDGETARY CONCERNS

- *How will the budget for the first pillar be allocated between Member States?*
- *To what extent would adjusting payment levels to take into account the diverging national cost structures act in contradiction to the principles of cohesion policy?*
- *How will the national envelopes of the first pillar be allocated between the different aid components proposed?*
- *How will the different Pillar 1 objectives of income support and delivery of public goods be prioritised, in financial terms?*
- *How has the Commission's thinking evolved with respect to the question of whether or not to cofinance the new Pillar 1 support for areas with specific natural constraints?*
- *Which current rural expenditures are justified at EU level and which others could be left to the Member States?*
- *Is it adequate to introduce rural cohesion programmes into the Regional Policy to complement the EAFRD measures?*

21. WTO CONCERNS

Proposal (Sections 3.1 and 6.1)

The Communication recognises that EU agriculture finds itself in a competitive environment as the world economy is increasingly integrated and the trading system is becoming more liberalised (Section 3.1). 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 currently under negotiation (Section 3.1). However, the Communication does not comment on the WTO framework within which the new CAP will reside and merely mentions the issue indirectly in relation to the optional risk management toolkit in the second pillar and the adaption of "*disturbance clauses*" on markets policy (Section 6.1).

21. QUESTIONS ON THE WTO CONCERNS

- *Will the Impact Assessment accompanying the legislative proposals explain the multilateral framework relating to the new CAP, in particular to the possible WTO compatibility of the new arrangements for domestic support?*
- *On what basis will the new direct payments of the first pillar be justified as being compatible with the WTO Green Box?*
- *Could environmental payments, as well as regional payments, included in the current Green Box, become the new basis for the new aids proposed for the first pillar?*

22. FOOD SAFETY CONCERNS

Proposal (Sections 2, 3 and 5)

The proposal points out that the issue of food security is one of the greatest challenges that have characterised the overall process of reform of the CAP. The Communication stresses that this issue remains one of the main objectives of the future CAP.

22. QUESTIONS ON FOOD SAFETY CONCERNS

- *How in the future CAP will the food safety concerns be implemented?*
- *Will the current European School Fruit and Milk Schemes be continued?*

23. DECISION-MAKING PROCESS FOR THE CAP REFORM

Proposals

The Communication remains silent concerning the decisional making process.

23. QUESTIONS ON THE DECISION-MAKING PROCESS ON THE CAP REFORM

- *Will the legislative proposals to be presented by the Commission in summer 2011 fix the amounts of aids and prices?*