Largely because of its size, the EU is both the world’s largest importer and exporter of agri-food products. The EU essentially imports raw agricultural commodities and exports processed foodstuffs, specialising in higher-value commodities. The successive reforms of the CAP have greatly reduced the EU’s distortionary impact on world markets. However, total farm support payments in the EU still account for about one-fifth of gross farm receipts and, therefore, play a significant role in shaping production patterns and land-use decisions (OECD 2015).

The 2014-20 CAP is the result of a three-year process of intense negotiations, involving for the first time the European Parliament acting as co-legislator with the Council. It also took place in the framework of the discussions on the overall EU budgetary framework for 2014-2020, which provides for the funds at the disposal of the EU, including the CAP. After intensive negotiations, in 2013, a deal was secured both on the CAP and the Multiannual Financial Framework. It retains most of the essential objectives and approaches proposed by the Commission, with a total budget of more than €400 billion (or roughly, US$440 billion) for the whole period (European Commission 2013).

The new CAP builds on previous iterations of a reform process that started more than two decades ago, slowly moving from product to producer support and now to a more land-based approach. In 1992, the MacSharry reform initiated the process by cutting price support for a number of commodities and introduced direct payment as compensation for farm incomes. Commissioner Fischler took the next step in 2003 by delinking direct payments from production, allowing the EU to place the largest part of its domestic support in the green box. Mariann Fischer Boel continued the process of decoupling while initiating a reform of the EU sugar regime and setting a date for removing milk quotas by 2015. The 2013 policy broadly continues along the same reform path, albeit in a less decisive manner. A major consideration of the most recent reform was the need to redistribute payments toward farmers in the EU’s new member countries in Central and Eastern Europe, but also to ensure a more regionally even distribution within member states and toward smaller farmers. In practice, this discussion largely eluded a more fundamental debate about the continued justification for direct payments, originally introduced in 1992 as adjustment mechanisms or compensation for the 1992 price cuts (Tangermann 2014).

As far as direct payments are concerned, a new basic payment scheme, reflecting a uniform level of payments inside each region was introduced for all EU farmers as a form of direct income support. The basic payment is complemented by a series of additional payments funded under the national ceiling made available by the Commission to each member state. The most innovative of these additional schemes is the green payments regulation, which imposes new conditions for receiving 30 percent of the payments: these include requiring farmers to grow at least three different crops simultaneously to ensure diversification; maintaining permanent grassland at the 2014 level of individual farms; and establishing an ecological set-aside (e.g. land left fallow, buffer strips, or afforested areas). This approach seems intended to respond to calls for “public money for public goods,” a notion increasingly invoked as justification for continued direct payments. Some environmentalists point, nonetheless, to the risk of “greenwashing,” arguing that payments should actually be targeted to clearly defined and measurable environmental goals and that the environmental logic should not be used to justify continued farm income support payments. Other top-up payments include schemes to assist farmers in areas with specific natural constraints or to help new entrants. As decoupled payments, all these schemes will fall under the green box.

Coupled payments — payments linked to the level of production — are confined to sectors in certain difficulties and should only be granted to the extent necessary to maintain current levels of production. Total support should be limited to 8 percent of each member state’s direct payments ceiling, or exceptionally 13 percent under certain circumstances. In spite of these restrictions, there appears to be greater flexibility for countries to use such instruments under the new CAP, and the list of sectors eligible for coupled support payments has been greatly expanded. As a result, coupled aids have started to grow again, from a projected €2.7 billion

1 Green box support refers to a payment considered as minimally or non-trade-distorting support: this type of support is not subject to any ceiling or reduction commitments in the WTO it complies with certain criteria.
(nearly US$3 billion) in 2014 to a projected €4.8 billion (or roughly US$5.3 billion) in 2015, an increase of nearly 75 percent. Their share of total direct payments will rise from 6.7 percent in 2014 to 11.6 percent in 2015. The limited data available also raises the question of whether the new coupled payments fully comply with the criteria set out in the new regulation. With respect to market measures, the new CAP confirms the earlier decision to eliminate supply controls on milk, sugar, and the planting of vines by ending milk quotas in 2015 and sugar quotas in 2017. To address market disturbance related to disease outbreak, loss of consumer confidence, or price volatility, the possibility to use crisis interventions is generalised across commodities. Finally, measures to strengthen the bargaining power of producers in the food chain have also been introduced.

Rural development policies (the second pillar of the CAP) are made more flexible. An optional co-financed risk management toolkit was introduced, providing for income stabilisation in a way that is compatible with the WTO green box criteria. New institutional mechanisms for innovation have been introduced backed with a larger budget for agricultural food and research to improve competitiveness and to address environmental and climate change challenges. Finally, the 2013 CAP package did not make any change to the EU regime for export subsidies. In practice, the decline and current disappearance of export subsidies is a result of past cuts in EU support prices and the decoupling of direct payments combined with recent high prices on the world market. However, the EU still maintains the possibility to use this instrument in the future. Similarly, the CAP reform did not change EU border protection, such as tariffs or tariff rate quotas, a matter that the European Commission has said should be left to international trade negotiations.

Overall, the amount of support envisaged under the new CAP remains consistent with the EU’s commitments under the WTO, with the vast majority of its support notified as green box. One could discuss whether some elements of the “greening” approach to direct payments could be challenged as fully decoupled payments under the green box, but this would not pose a major problem, as there is substantial scope under the large EU Aggregate Measure of Support (AMS) entitlement both in its current form or in the event of an agreement under the Doha negotiations along the lines currently envisaged (Tangermann 2014). Beyond WTO commitments, critics regret that the reform focused on redistributing support instead of pursuing a more ambitious targeting and further decoupling of direct payments (Tangermann 2014). However, the greater emphasis put on encouraging farmers to adopt environmentally friendly practices and the redistribution of payments toward farms in more marginal and less productive areas will likely reduce the EU production potential (e.g., for rice). In a similar vein, the slight reduction in coupled cotton payments might lead to lower production. The abolition of milk quotas is unlikely to have major impacts, but some experts anticipate an increase in sugar production depending on the level of world prices, which might result in lower imports from preferential suppliers like LDCs or members of the African, Caribbean and Pacific Group of States (ACP) (Matthews, 2011). Finally, the continuation of coupled support is likely to benefit mainly beef and sheep, keeping EU production higher than would otherwise be the case.

References


3 The AMS entitlement for each WTO member refers to the limit established during the Uruguay Round on trade-distorting support, including both product-specific and non-product-specific agricultural support.