



## Health check of the CAP reform - *European Agriculture Policy is in bad shape*

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### 1. CAP Health Check - Lacking orientation in a changing landscape

The exercise of the so called "*Health check*" of the CAP reform - which is in fact a mid term review of the reform process which started in 2003 - has missed an important opportunity to respond to pressing environmental and food security problems and to support farmers in shifting to sustainable practices in order to respond to these challenges.

The "*health check*" as adopted by the Council basically leaves the CAP reform process unchanged:

- It further simplifies direct payments to farmers (single farm payment), but without capping or modulating payments to highly rationalised farms and agro-industrial enterprises and without substantial transfer of CAP money to sustainable rural development measures.

- It continues the process of decoupling production from payments, which in part offers farmers to diversify production, but can also force farmers to give up production in environmentally sensitive areas if adequate infrastructure is missing; Pretending to simplify policies, the Commission and the Council are withdrawing from supply management (e.g. by increasing milk quotas), but this will only increase milk surplus and exports and drive small and medium sized milk farmers out of business.

Furthermore, the health check does not sufficiently reflect important changes taking place in the public debate and the geopolitical landscape:

*Firstly*, the Commission's *transparency initiative* has politically evaporated. It now obliges member states to make individual subsidies public. Where governments already published figures, they revealed that the reform continues an unbalanced distribution of public support: a very small number of large land owners, not all of them farms, and food companies still profit most from the CAP budget. Current entitlements are based on landownership and historic yields, not on individual



needs, environmental performance and regional disadvantages. In its early proposals, the Commission had suggested substantial capping of top individual payments. But the Council of Ministers and the European Parliament have bent to the fierce pressures from the agricultural lobby which brought capping and modulation virtually down to nothing.

*Secondly*, the Commission's engagement for a further opening of agricultural markets worldwide has brought increasing imports of farm products from third countries, especially in the meat sector which puts an increasing number of smaller European producers out of business. These imports often do not meet the legally binding conditions European farmers have to respect and are therefore cheaper. The cross-compliance principle which obliges farmers to respect environmental and animal welfare laws is therefore looked upon by many farmers' organisations as competitive disadvantage. Although the proposed less bureaucratic controls of cross-compliance are useful, the Commission has failed to openly discuss the problems linked to increased feed and food imports which undermine the Union's achievements in environmental, animal welfare and social conditioning of public aid. European requirements in the fields of sustainability and animal welfare should in principle equally apply to imported products, although limited exceptions could be made for products from developing countries, if they are supported to reach these standards. We urge the European Commission to implement this principle of qualified market access in WTO negotiations and to accept other countries right for food production by immediate withdrawal of export subsidies.

*Thirdly, climate change and efforts to replace mineral oil with the use of energy crops* has also fundamentally changed the picture. Commission and Council have only marginally touched upon these issues. A global boom of investments in agro-fuels and repeated harvest losses due to draughts and floods have substantially reduced world market supply of food while growing population and changing eating habits have increased demand for feed and food in the emerging economies. Facing rising feed and food prices, the Commission has abolished set-aside. But the health check ignores the growing competition for land between food and fuel production and the growing risks for global food security due to speculation with farm products as revealed by the financial crisis. The Council still insist on compulsory targets for adding agro-fuels to mineral fuels, before any environmental and social impact assessment of agro-fuel production and imports has been carried out. This is a serious political error.

*Finally, the health check has not launched the much needed democratic exercise on future goals of the CAP.* If Ireland should ratify the new treaty, Parliament could finally gain co-decision for the CAP. However, the treaty will not change the goals of the CAP, which have existed since the 1960s. Those goals, related to a reasonable income for farmers and acceptable prices for consumers, remain valid in principle, but they should now be complemented by new relevant goals and measures related to sustainable use of natural resources, diversification of incomes and balanced rural-urban development. With a focus on rural innovation and employment, animal welfare, public health, reduction of greenhouse gas emissions and sustainable use of biodiversity, the health check could have been an efficient remedy against continuing agro-lobbyism and euro-scepticism. The health check completely lacks this vision.

That's why we must continue to demand a more radical change and a more sustainable political framework for the CAP, according to the following priorities:



## **2. Transparency - missed opportunity to qualify CAP expenditure**

The Commission's transparency initiative, which was pressed for by civil society groups criticising the secrecy on the distribution of public money, obliges member states to publish individual subsidies paid from the EU-budget, the latest in 2009. This is an opportunity to review entitlements based on landownership and yields, and to discuss future conditional payments linked to cohesion and employment principles.

The 2003 CAP reform has not changed the fact that 30% of CAP subsidies go to 1% of farming enterprises, most of which are competitive and thriving without these subsidies. Even multinational companies like Nestlé, golf yards and energy corporations like RWE in Germany are CAP beneficiaries. The proposal to introduce upper and lower limits in support levels, excluding top payments and very small receivers, may sound balanced. But a much more acceptable principle for future income support would be to condition payments according to employment and environmental performance of farms of any size.

## **3. Single farm payments - Future farm aid needs public legitimacy**

Since 2003, CAP payments to farmers are increasingly decoupled from production. What is paid from the CAP budget is no longer compensation for price cuts but an income support, justified with the *multifunctionality* of EU agriculture. If this is to be politically viable, it should be understandable for the taxpayers of Europe why such support should be given. The CAP needs new eligibility criteria for the single farm payments, focused upon support for services and goods which are of public interest, but not covered by the market, such as biodiversity conservation, or on compensation for regional or structural disadvantages. Avoiding this debate because of pressure from agro-industrial lobbies carries the risk of linear cuts in the CAP budget at the expense of those farmers and regions which really need support to adapt to changing economical environment. Farmers need a thriving countryside - a holistic approach in rural development gives economic power to regions which can carry sustainable farming.

## **4. Cross compliance - Time to encourage sustainable practices**

The CAP reform of 2003 introduced the principle of conditioning public aid through Cross Compliance. In order to receive support from the EU, farmers must respect existing environmental and animal welfare laws and regulations. Not complying can imply cuts or complete withdrawal of support. The Commission is right in insisting that cross compliance rules should be easy to understand and to follow. However, besides controls and punishments, more should be done to encourage sustainable practices through better training and process control. Cross Compliance is put under pressure through increased imports from countries where environmental and animal welfare legislation is less developed and effective. The Commission should strengthen the principle of conditioning and extend it to social and employment aspects, as well as to biodiversity, energy efficiency, water scarcity and quality, instead of taking a defensive position by limiting its proposals to simplification. The Commission should ensure the implementation of Cross Compliance in all member states by supporting them with a Commission guideline. National guidelines should be cross-checked on their environmental efficiency, consulting nature conservation NGOs and other stakeholders engaged in sustainability.



## **5. More market - Concentrated market power undermines fair competition**

In spite of the growing global food crisis and the growing negative impact of global speculation with food crops on access to food for the growing poor population, the Commission still praises market liberalisation as a new freedom for farmers to make their choices in response to market signals. While phasing-out market intervention in many sectors has in principle opened new possibilities for diversification, especially where surplus production was encouraged and prices fell, most farmers need specific support to develop their markets and to add value to their products and so get a better share of their production from local and regional markets. However, current EU legislation on marketing, hygiene and size standards as well as a rapid concentration in the food retailing sector effectively deny market access to smaller producers. The "Health check" should have focused on how a reviewed CAP could assist the millions of small producers to add value to their products and to diversify their incomes. It should also have addressed the problem that the food industry and supermarket chains increasingly act like market and price gatekeepers and use their market power to increase consumer prices to an extent which is not justified by average farm gate prices. In order to challenge trends of monopolisation of feed and food markets, the Commission should therefore take action under new competition measures.

Furthermore, especially regarding the debate about the financial perspectives of the EU, the Commission should now work on a new political framework which allows stabilizing prices for agricultural products which are now extremely volatile due to speculation on crops which can be used for food or fuel and increasing insecurity about possible harvest losses due to climatic change.

## **6. Less organisation - Giving up supply management without offering good alternatives is a political error**

In principle, the 2003 CAP reform supposed to reduce market intervention so that farmers are no longer tempted to produce beyond the market demand but take more initiative and responsibility for selling their products. However, the Commission throws out the baby with the bathwater. The instruments for management of supply in many sectors - such as quotas, planting rights or preferences for imports from developing countries - can help to sustain stable prices. These instruments can also protect sustainable farming practices in disadvantaged regions such as mountains and islands. Milk quotas have allowed small farmers in many non-arable regions to stay in business; sugar quotas have also slowed down a process of concentration in a few advantaged regions. Supply management instruments may only be given up if good alternatives, such as higher direct payments for farmers in disadvantaged regions and measures to ensure fair prices for sustainable agricultural products, are offered. The CAP needs new supply management measures including new competition rules and qualified market access which challenge the market power of global farm trading companies. For example a supply management system for milk, oriented at the EU consumption, would not cost the tax payer extra money, but could help to maintain farming in disadvantages areas.

## **7. Food and energy security - No suggestions for a sustainable balance**

The "Health check" has ignored the problems arising from one of the most challenging changes taking place in global agriculture: an increasing competition between resources used for food and for renewable energies. In spite of widespread concerns about negative energy balances in agro-fuel production, high



emissions of nitrous oxides from increased use of fertilisers and massive loss of biodiversity through energy crop monocultures, the "Health check" has not touched upon compulsory targets for agro-fuels. Harvest losses due to climate change and increased consumption of meat in the rising economies, which is a growing source of greenhouse gases, are only taken under consideration from the point of view of increased costs for the European livestock industry. In order to tackle climate change, strong measures towards a climate friendly agriculture are needed, starting with obligatory reduction targets for the sector.

World grain stocks are at their lowest levels in four decades. A further shift of investments and land from food to fuel production puts global food security at serious risk. Before launching new legislative proposals, the Commission should deliver a full food security and environmental impact assessment of the EU agro-fuel targets. This must include imports from developing countries and should elaborate much more on energy sufficiency and efficiency in the entire food chain, reflecting on better use of waste products and decentralised energy systems.

## **8. Rural development - More money is not enough**

The health check has not moved any substantial amount of CAP money from the first (Single Farm Payments) to the second (Rural Development) pillar of the CAP. But it is not the shift alone that is needed. It is the spirit of rural development programmes which is not yet clearly promoting a sustainable and integrated support of rural economies. The rural development programmes of the member states clearly show that most of the rural development money is earmarked for investments in more intensive and concentrated farming, leaving widespread other needs unmet. The European Court of auditors has recently dismissed the performance of the agro-environmental schemes in many member states as inefficient regarding the goals, especially in terms of water, biodiversity and soil conservation. Therefore, more money transferred from farm subsidies to rural development aid is not a guarantee for more sustainable practices, employment or integrated rural development as the communication suggests. The Commission, and some member states are still underestimating the need for widespread investment in diversification of the rural economy, in support to millions of small producers and small and medium-sized enterprises and in raising the quality of life in rural regions. There is a need for a major campaign to create sustainable rural communities and economies which can provide the sufficient and high quality food and renewable energies that Europe needs while preserving landscapes and biodiversity.

## **9. Financial perspectives - Co-responsibility is European added value**

There is a great risk that without truly integrated rural development programmes and a reasonable conditioning of direct payments to farmers CAP money will be lost for rural areas and sustainable management of natural resources during the negotiations on the financial perspectives after 2013 because the public won't see any added value in spending money as usual to the CAP. The "Health check" leaves the CAP unfit for the upcoming negotiations on the financial perspectives. It fails to introduce compulsory conditions for direct payments which would enable farmers to meet the challenges and risks posed by climate change, including floods, droughts, and losses of harvests and of biodiversity. These challenges were mentioned in the legislative proposals but member states are free to act or not. The problem is also linked to the fact that first pillar money is still not co-financed by the member states. The "Health check" should have provoked discussion about co-responsibility of the EU and the member states and co-financing of the CAP, rather



than fuelling speculation about further re-nationalisation of the only fully integrated European policy.

## **10. Fair trade - Cohesion and solidarity are competitive values**

The opening of agricultural markets has been the mantra of the Commission for more than a decade. With the financial crisis and highly volatile agricultural prices this mantra sounds a bit weaker now. The argument that development in the South would only take place if agricultural goods could flow freely across national borders has been effectively challenged. Fair trade standards have been developed from the bottom-up by farmers and consumers organisations, now making their way into larger markets. Regarding human rights violation, destruction of rainforests and the depletion of water resources for exports into the EU, the Commission must acknowledge that qualified market access, meaning social and environmental conditions and standards for market access, is urgently needed and must actively be promoted in international trade negotiations. In order to avoid dumping of European products on the markets of developing countries, it is necessary to phase out all export subsidies. By omitting any discussion about current fair trade standards and instruments, which effectively sanction social and ecological dumping within and outside the EU, the "Health check" has failed to address the fundamental problems which remain unsolved in the ongoing multilateral negotiations.

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