

**The CAP and national priorities  
within the EU budget  
after 2020**





INSTITUTE OF AGRICULTURAL  
AND FOOD ECONOMICS  
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# The CAP and national priorities within the EU budget after 2020

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CHALLENGES, CHANCES, THREATS, PROPOSALS

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## 6. The Common Agricultural Policy of the European Union – main challenges for a new budget

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*“Don’t tell me where your priorities are. Show me where you spend  
your money and I’ll tell you what they are” [James W. Frick]*

### Abstract

Many factors (refugees, climate change, problems of the euro zone, Brexit, etc.) have an impact on the decisions of public support donors, who try to rationalize CAP expenditure and look for savings after 2020. The legitimisation of further continuation will be obtained only by the most effective instruments that fit into the assumptions of horizontal policies. The most important challenges regarding the future policy were characterized, referring to the trends of changes as a result of endogenous and exogenous factors. Developments over recent years have shown that the EU budget has had to provide support to response to specific problems. There is a need to explore the right balance of instruments in the future CAP between policy measures and financial envelopes, grants and financial instruments and risk-management tools to cope with risk and unexpected adverse events in the agricultural sector. Finally, authors gave several reasons for further reform of the CAP. It is a review article and it is a synthesis of current knowledge in this area.

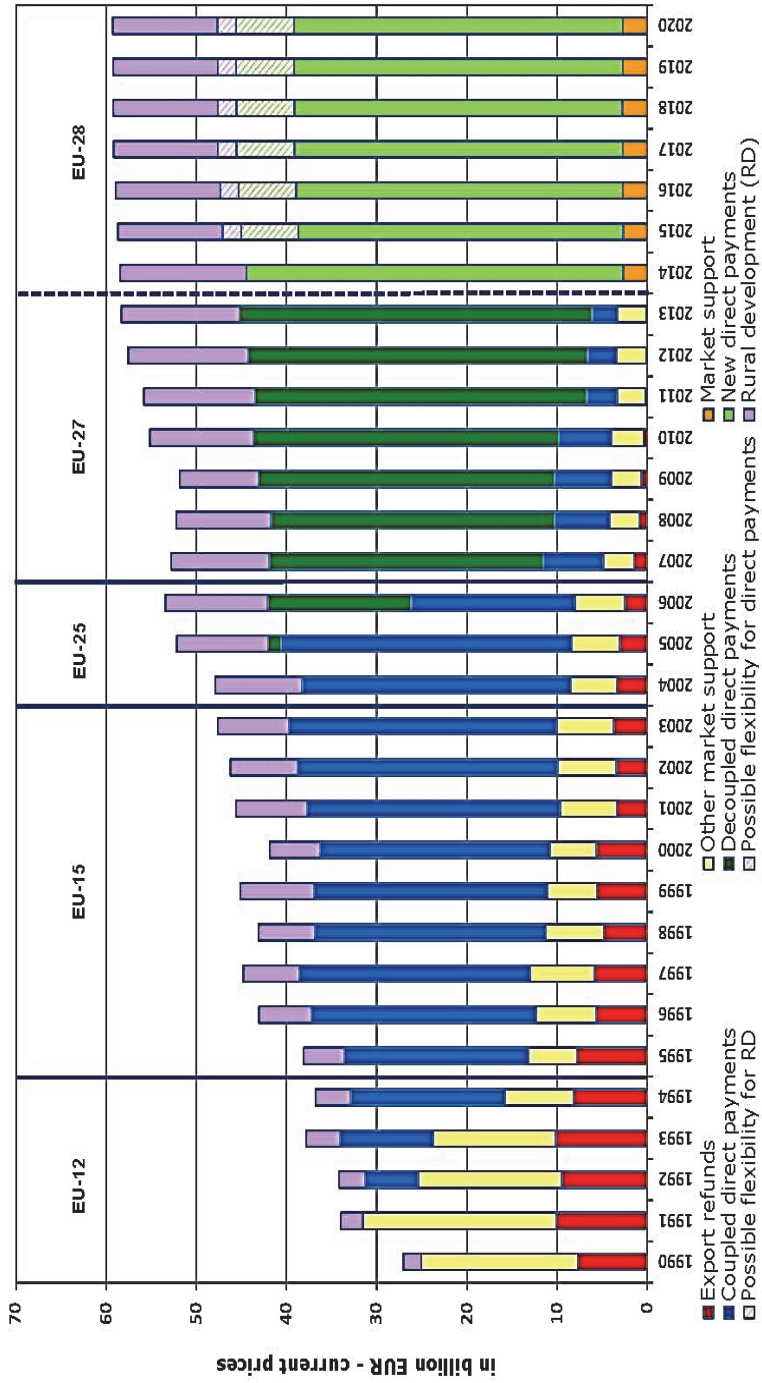
**Keywords:** agricultural policy, SWOT analysis, agriculture, challenges

**JEL codes:** D78, Q14, Q18

### 6.1. Introduction

The world is moving fast. The challenges concern not only farmers but society as a whole. Farmers are constantly adapting to changing circumstances (climate change, price volatility, political and economic uncertainty, embargoes, animal illnesses, law changes). To this time, it has been argued that the Common Agricultural Policy (CAP) must continue to evolve (see: Fig. 1).

Figure 1. Evolution of the CAP instruments (1990-2020)



Source: [http://ec.europa.eu/agriculture/policy-perspectives/policy-briefs/05\\_en.pdf](http://ec.europa.eu/agriculture/policy-perspectives/policy-briefs/05_en.pdf) (access: 5.05.2018).

The CAP was created by the Treaty of Rome of 1957. It made agriculture part of the so-called common market of the European Economic Community (currently: the European Union). Thus, farmers were ensured income support and encouraged to increase production (the Community achieved food self-sufficiency). In the meantime, the EU agricultural policy has been subjected to several major reforms (MacSharry reform, Agenda 2000, Luxembourg reform of 2003, Health Check of 2008) which were a form of the CAP evolution (direction of changes: productivity → competitiveness → sustainability) due to changing conditions of functioning and new challenges.

Although the reforms adopted in the 1990s and in 2000 changed the nature of the CAP, experts convince that further reforms are necessary [Tomczak, 2009; Wilkin, 2009; Ferrer and Kaditi, 2006; Wróbel, 2015]. In their opinion, supporting markets and farm income is not a sufficient justification for allocating almost 40% of the EU budget for the agricultural policy and the historical payment distribution criteria are not much related to the current needs. As the redistributive policy, the CAP has been very soon burdened by all negative consequences of the rent-seeking activity [Kosior, 2011; European Commission, 2005]. This phenomenon has been described by the theorists from the public choice school [Schmitz, Furtan and Baylis, 2002; Wilkin (ed.), 2005; Wichern, 2004; SER, 2006].

As a result of the Community's enlargement (e.g. in 2004), new problems started to emerge. The basic one was and is the comprehensive assessment of the efficiency of support from the CAP funds, with which even the countries of the so-called Old Union (EU-15) have large difficulties. Another problem is the unwillingness of the more developed countries to continue to finance the development of agriculture in poorer countries (see: Brexit [Mathews, 2016; Helm, 2017; McMahan, 2018]). Thus, the discussions between supporters of the Neo-Keynesian doctrine (assuming the use of state interventionism) and supporters of the Neo-liberal doctrine (based on the market rights only) are heated and continuous.

Currently, it is stressed that the agricultural policy should focus more on the competitiveness and innovation, climate protection, natural environment and economic, social and territorial coherence. The report by A. Buckwell<sup>1</sup> contains the proposals to remunerate farmers and rural residents for provided public goods and services. It stressed a need to concentrate support on several targets strategic to the EU (targeting policy). According to J.Ch. Bureau and L.P. Mahé [Bureau and Mahe, 2008; Król, 2013], the EU agricultural policy should in the

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<sup>1</sup> Report entitled *Towards the common agricultural policy and rural areas* prepared by experts under the leadership of Prof. A. Buckwell from the University of London, with participation of economists, sociologists, ecologists and political scientists.

future be completely based on the contracting system. The contracting system would replace the current single payment system. Current solutions lead to over-capitalisation of subsidies in prices of land. Moreover, to guarantee the environmental protection, of importance is not only the “provider gets” principle but also the “polluter pays” principle. According to J.Ch. Bureau and L.P. Mahé, the “polluter pays” principle should be applied in a more restrictive manner.

The two principal aspects of the CAP require more attention – land management and risk management (Fig. 2). The third element (rural development policy) is less in need of radical over-haul [Buckwell, Matthews, Baldock and Mathijs, 2017; Chlebicka, Fałkowski and Wołek, 2009; Londero, 2017; Boulanger and Messerlin (ed.), 2010].

Figure 2. Proposed structure for a modernised CAP

<p><b><u>Holistic risk management</u></b></p> <ul style="list-style-type: none"> <li>– prevention</li> <li>– mitigation</li> <li>– coping</li> </ul>	<b>Integrated land management</b>	<p><b><u>Investment support</u></b></p> <ul style="list-style-type: none"> <li>– productivity innovation and skills</li> <li>– high quality food</li> <li>– food chain relations</li> <li>– rural development</li> <li>– Community-led development</li> </ul>
	<b>Tier 4.</b> Higher level environmental payments	
	<b>Tier 3.</b> Agri-environment and climate measures	
	<b>Tier 2.</b> Help for environmentally and socially marginal areas	
	<b>Tier 1.</b> Transitional adjustment assistance	
	<b>Reference level</b>	

Source: A. Buckwell, A. Matthews, D. Baldock, E. Mathijs, CAP: Thinking Out of the Box: Further modernisation of the CAP – why, what and how? RISE Foundation, Brussels 2017.

In 2018, the discussion on the shape of the agricultural policy post-2020 became more heated. What largely contributed to intensifying debates on the future of the CAP, was the result of the British referendum (23.06.2016) on the withdrawal from the EU structures. The United Kingdom was a net payer<sup>2</sup>. Their annual contribution was nearly EUR 10 billion. The calculations show that Brexit may result in a gap of EUR 60 billion in the European Union’s budget. This is an important problem for the EU budget which may affect the agricultural budget to the greatest extent.

The above-mentioned phenomena and events resulted in looking for a new state of balance for the Community. Turbulence around the future EU budget induced to improve the current policies, to strengthen them and to verify

<sup>2</sup> <https://businessinsider.com.pl/finanse/makroekonomia/brexit-dziura-w-budzecie-ke-po-wyjsciui-wielkiej-brytanii-z-ue/f0f2ehw> (access: 18.09.2018).

their validity. This applies to the agricultural policy as well. Therefore, the objective of this paper is to indicate the most important challenges for the agricultural policy post-2020. In other words, the authors are looking for an answer to the question: What priorities and challenges are considered when shaping the new CAP budget?

## 6.2. Agricultural policy post-2020

The European Commission (EC)<sup>3</sup> published "Reflections Paper on the Future of EU Finances: Five Scenarios – Implications". There are five basic options for the future of the EU finances:

- Carrying on: the EU-27 continues to deliver their positive reform agenda.
- Doing less together: the EU-27 does less together in all policy areas.
- Some do more: the EU-27 allows groups of Member States to do more in specific areas.
- Radical redesign: the EU-27 does more in some areas, while doing less elsewhere.
- Doing much more together: the EU-27 decides to do more together across all policy areas [European Commission, 2017].

Figure 3. Agriculture in all scenarios of the EU finances

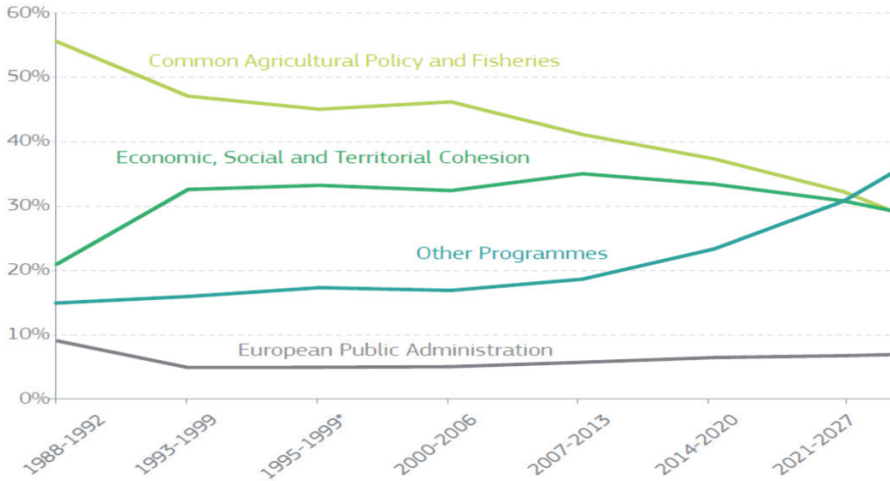
Scenarios	Carrying on (1)	Doing less together (2)	Some do more (3)	Radical redesign (4)	Doing much more together (5)
Policy priorities	Taking forward current reform agenda	Mainly financing of functions needed for the single market	As in scenario 1; additional budgets are made available by some Member States for the areas where they decide to do more	Financing of priorities with very high EU value added [Gorzela et al., 2017; Ferrer and Kaditi, 2008]	Doing much more across policy areas
<b>Agriculture</b>	<b>Lower share</b>	<b>Lower amount</b>	<b>Same as in scenario 1</b>	<b>Lower share</b>	<b>Higher amount</b>

Source: European Commission COM(2017) 358 of 28 June 2017.

<sup>3</sup> The Commission proposal for the multiannual financial framework (MFF) 2021-2027 includes EUR 365 billion for the CAP (in current prices). This corresponds to an average share of 28.5% of the overall EU budget for the 2021-2027 period (EUR 265.2 billion for direct payments, EUR 20 billion for market support, EUR 78.8 billion for rural development and an additional EUR 10 billion will be available through the Horizon Europe research programme). See: *Reflections on the agricultural challenges post-2020 in the EU: preparing the next CAP reform*, European Parliament's Committee on Agriculture and Rural Development, Brussels, 2016.

In all scenarios except the fifth one (which assumes a commitment to a significant step up in the degree of European integration), the CAP budget will be lower. The CAP will take a smaller share of the EU budget, and in some scenarios the overall budget will also be reduced (Fig. 3-4).

Figure 4. Evolution of main policy areas in the EU budget



\*Adjusted for 1995 enlargement.

\*\*Other programmes: research and innovation, external actions (space, education and youth, justice and home affairs, competitiveness, other).

Source: European Commission COM(2017) 358 of 28 June 2017.

The confirmation of the above processes (tendencies) seems to be the same as the findings contained in Cork (Cork 2.0 Declaration, 5-6 September 2016) in Bratislava (The Bratislava Declaration, 16 September 2016) and in Rome (The Rome Declaration, 25 March 2017).

In the EC opinion, the future CAP will focus on nine general objectives reflecting the economic, environmental and social importance of the policy<sup>4</sup>:

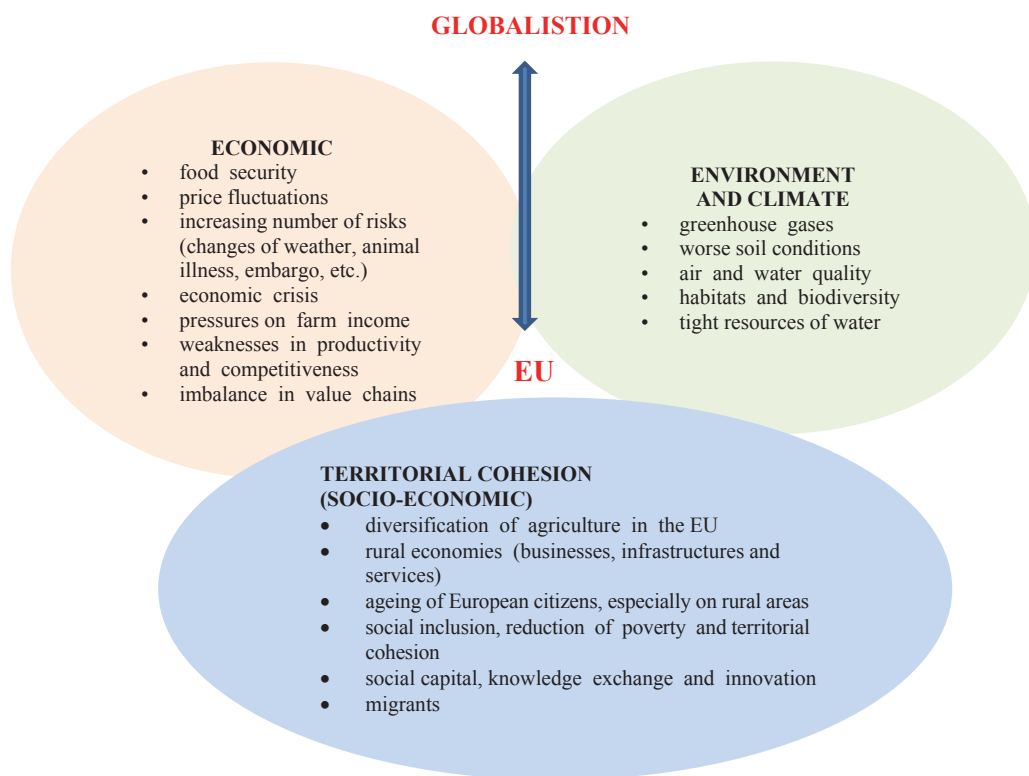
- Support viable farm income and resilience across the EU territory to enhance food security;
- Enhance market orientation and increase competitiveness including greater focus on research, technology and digitalisation;
- Improve farmers' position in the value chain;
- Contribute to climate change mitigation and adaptation, as well as sustainable energy;

<sup>4</sup> Fostering knowledge, innovation and digitalisation in agriculture and rural areas is a cross-cutting objective.



- Foster sustainable development and efficient management of natural resources such as water, soil and air;
- Contribute to the protection of biodiversity, enhance ecosystem services and preserve habitats and landscapes;
- Attract young farmers and facilitate business development in rural areas;
- Promote employment, growth, social inclusion and local development in rural areas, including bioeconomy and sustainable forestry;
- Improve the response of the EU agriculture to societal demands on food and health, including safe, nutritious and sustainable food, as well as animal welfare.

Figure 5. Challenges and future objectives of the CAP



Source: own elaboration.

On 1 June 2018, the EC presented legislative proposals on the CAP beyond 2020. Based on 9 objectives, the future CAP will continue to ensure access to high-quality food and strong support for the unique European farming model<sup>5</sup>. They have been illustrated below, broken down by challenges:

- economic,
- environmental and climate,
- socio-economic [Adamowicz, 2018] (Fig. 5).

The challenges arising from the dynamic process of globalization call for the need to strengthen the EU cohesion in the economic and social spheres, which also contributes to the evolution of the Community's agricultural policy [Adamowicz, 2018; Majewski and Malak-Rawlikowska, 2018; Mathews, 2018].

It seems necessary to refer the above-mentioned challenges to SWOT analysis regarding European agriculture. This analysis has been presented in comparison 1, whereby the greatest attention has been paid to economic challenges (see: box 1). The economic challenges identified by the SWOT analysis can be grouped into three main areas: (1) pressures on farm income<sup>6</sup>, (2) weaknesses in productivity and competitiveness, (3) imbalance in value chains.

The analyses prepared for the EC order show that over the last 10 years (2005-2015), real income did not grow in the EU-28. The increase in real factor income per annual working unit (+3% per year) could only be realized due to a considerable outflow of labour force. In the next 10 years, the stagnation is expected to continue. Driven by stronger increases in costs compared to value of production, total agricultural income (in real terms) is expected to decline considerably (-14% by 2026) [Modernising..., 2017]. Strong pressures on income have an immediate negative impact on farmers' standard of living. Part of farmers will go out of business. This could have negative impact on the local economy. Finally, low income makes farming less attractive to potential newcomers [Katchova and Dinterman, 2018]. While competitors in the sector adopt the newest technology, for a large group of the EU farmers take-up of new technologies is limited. Small and medium sized farms are particularly confronted with this technology gap. The investment gap remains significant. In the food supply chain, farmers are much more numerous than processors and retailers and their businesses are generally smaller. Price indices at a more disaggregated level are less available.

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<sup>5</sup> [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap\\_en](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap_en) (access: 17.09.2018); OECD, *Regulatory Policy Outlook*, 2015.

<sup>6</sup> <http://www.welfare.ie/en/Pages/Farm-Assist.aspx> (access 28.09.2018); Managing risk in agriculture policy assesment and design, OECD, OECD Publishing, Paris, 2011; S. Severini, A. Tantari, G. Di Tommaso, *Do CAP payment stabilise farm income? Empirical evidence from a constant sample of Italian farm*, Agricultural and Food Economics, No. 4(1), 2016.

## Box 1. SWOT analysis of the European agriculture

<b>ECONOMIC STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS FOR THE EU AGRICULTURE (economic challenges)<sup>7</sup></b>
<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>– better understanding of the various trends in consumer demand (better market research, data science and big data),</li> <li>– favourable production environment and environmental friendly production,</li> <li>– safe and high value foods,</li> <li>– innovative food chain,</li> <li>– positive agri-food trade balance.</li> </ul>
<p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>– differences in income level between different regions,</li> <li>– the EU population is ageing (farmers too),</li> <li>– the EU agricultural productivity growth is slowing down,</li> <li>– production costs are relatively high (especially owing to higher labour, land costs and environmental / sanitary standards),</li> <li>– the EU farmers experience some legal limitations towards some innovations in comparison to competitors (following health / environmental assessment of risks and/or societal choices),</li> <li>– significant gaps in economic performance (efficiency and productivity) between farmers,</li> <li>– price transmission is also not always perfect,</li> <li>– unfair trading practices (UTP) tend to persist,</li> <li>– concentration in the farming sector remains very low,</li> <li>– farmers are reluctant to cooperate (low level of vertical and horizontal integration).</li> </ul>
<p><b>Opportunities:</b></p> <ul style="list-style-type: none"> <li>– high consumer expectations (e.g. traceability, food safety / health, animal welfare, environment protection),</li> <li>– development of the bio-economy, the green economy and the circular economy,</li> <li>– local food and short supply chains,</li> <li>– demand growth due to population growth and increased purchasing power,</li> <li>– technologies improving information, logistics and organization in the food chain,</li> <li>– digitisation of agriculture and the further roll out of precision farming.</li> </ul>
<p><b>Threats:</b></p> <ul style="list-style-type: none"> <li>– increased competition for the EU producers,</li> <li>– increased dependency on other commodity markets (energy market),</li> <li>– increased pressure on natural resources,</li> <li>– more extreme climatic events,</li> <li>– potential outbreaks of animal and plant diseases,</li> <li>– geo-political instability,</li> <li>– bilateral and regional trade agreements,</li> <li>– emergence of major players on the global agricultural markets,</li> <li>– lack of consumer confidence (due to fraud, gaps in controls, traceability issues),</li> <li>– complexity of the supply networks,</li> <li>– high concentration levels in both the food processing and food distribution sectors,</li> <li>– lack of market transparency (Food Price Monitoring indices).</li> </ul>

Source: own elaboration on the basis of *Agricultural Outlook 2016-2025*, OECD-FAO, OECD Publishing, Paris, 2016; *Modernising and simplifying the CAP*, European Commission, 2017.

<sup>7</sup> Other challenges were analyzed in: *Environment and climate related challenges for agriculture and rural development*, European Commission, 11 December 2017; *Socio-economic challenges for agriculture and rural development*, European Commission, 11 December 2017.

Price transmission along the supply chain is uneven. Market shocks are fully transmitted to farmers, while price declines / rises are much more limited for processors and consumers. Primary producers have a limited extent and a share in the supply chain and are, thus, under-using opportunities to increase their market power. A further meaningful step would be to extend market transparency all the way downstream to the retail stage. The market orientation of agriculture requires a better understanding of the demand for agricultural products. A better understanding of the various trends in consumer demand would help identify areas where further added value can be generated.

In response to these challenges the EC proposes a long-term budget of EUR 1.135 billion in commitments (expressed in 2018 prices) over the period from 2021 to 2027. The funding for the Common Agricultural Policy and Cohesion Policy will be moderately reduced (both by around 5%) [*Economic...*, 2017; *The MFF Proposal...*, 2018].

### **6.3. Summary and conclusions**

The CAP has been and still is one of the most criticised EU policies. The literature critical of the policies was reviewed by, e.g. Ch. Henning [2000]. In Poland, it is criticised in, e.g. W. Kwaśnicki's publications [2010]. Perceiving the CAP functions is changing. Arguments justifying its further existence, but already in a new form, include: multifunctionality of the sector, market volatility, food safety, global threats, food security, but defined anew. From German perspective, the CAP needs to be better targeted and more efficient in spending taxpayers money, to achieve its stated policies regarding public services for lively rural areas and the protection of biodiversity. At the same time, farmers would like to avoid excessive bureaucracy.

On the other hand, agricultural policies are at the crossroads of several crucial aspects of European Union (viable food production, sustainable management of natural resources, rural vitality). More than 7.3 million farmers are CAP direct payment beneficiaries. They manage more than 170 million hectares of agricultural land.

For the CAP after 2020 is proposed to establish a more constraining framework on the Member States. This framework could, for example, include: (1) the obligation for Member States to design a national "intervention system" and (2) requiring Member States to conduct an impact assessment of the CAP.

This should allow for better and more efficient programming without adding complexity. The CAP measures should be more targeted. The next agricultural policy instruments will be the result of many forces (e.g. the interests of

Germany and France) and many factors. Future plans for agricultural policy-making must allow for the fact that European agriculture faces volatility of growing price. Farmers need stable incomes and economic visibility. In addition, the current form of agricultural policy is influenced by the earlier path of development (path dependence).

Member States need to address significant new challenges, especially with respect to migration, security, climate changes, public goods and growth. Brexit leaves a hole in the EU budget (EUR 10 billion per year). The adaptability of the policy ensures its continued relevance (climate change, price volatility, political and economic uncertainty, rural depopulation and the growing importance of global trade). The policy is leading a transition towards a more sustainable agriculture and support farmers' income. It seems that the most important priorities for the CAP post-2020 will be: investments in knowledge and technologies (for low-emission economy and environmental protection), use of IT capabilities (point / precise approach to agricultural production) and efficient logistics on the line: suppliers of production factors – agricultural producers – recipients of final products. The next financial perspective (concerning agricultural policy) will be to a greater extent to promote more intelligent, modern and sustainable agriculture (SMART agriculture).

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