
THE GOOD, THE BAD AND THE CAP: REFORMING THE CAP TO ACCOMMO- DATE THE EUROPEAN GREEN DEAL

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The Common Agricultural Policy (CAP) has been at the core of the European project since its introduction in 1962. The very goal of which was to support small farms from increasing competition and ensure a stable supply of food in post-war Europe. Simington explores - and highlights the inefficiency of - the policies introduced under the umbrella of the CAP. It is acknowledged that the environment in which the CAP was introduced is much different from the one it experienced as the European project developed. Shifting demographics coupled with advancing technology is recognized as a key determinant of the failure of the CAP. Simington demonstrates how the CAP can be involved in ensuring the European Green Deal is fully implemented in the most effective method. Moreover, Simington shows that unless the EU implements the suggested CAP reforms, Europe's goal of climate neutrality by 2050 may be at stake.

I. Introduction

The agricultural sector holds a unique place in the EU political economy due to its idyllic cultural foundation in the 'family farm'. This cultural role has been protected in European society and politics ever since, even as the sector has evolved through technological progress that rendered family farms outdated. These advancements boosted productivity. However, Europeans' consumption levels did not increase in proportion, leading to excess supply and crumbling prices for farm produce. Efforts have been explored to preserve the familial farm vis-a-vis price supports and income support. Though these measures were short-sighted and failed to solve the fundamental supply problem, with subsidies favouring large farmers and neglecting the very family farmers they sought to protect. This paper analyses these measures and the subsequent policies, while also looking to the future and the available policies to mitigate environmental damage by the sector, so that the Common Agricultural Policy (CAP) can assist in realising the new Green Deal.

¹Developments in farming methods, machinery, pesticides, and herbicides rapidly increased yields and farm produce.

II. Key features

When familial farming made up the majority of the agricultural sector in 1955, farming was far more labour intensive than it is today. In 1955 it was responsible for an average of 21.2% of employment across the then EU28, in comparison with 4.2% in 2017 (Baldwin and Wyplosz, 2006, p. 207). Technological progress enabled the formation of large farms with more coherent machinery, plant and animal breeding methods, pesticides and fertilisers which all resulted in increased efficiency and productivity. The European agricultural sector is subject to the same supply factors as any other, such as climate, weather, and storage costs which create instability and in turn price fluctuations. However, the major impact was demand induced. Production exceeded consumption, resulting in excess supply and falling prices. This combination of static demand and excess supply caused prices to plummet. In some senses, the CAP, which was established in order to boost food production was too successful, requiring intervention to maintain high prices and production subsidies to compensate farmers.

III. Price supports

The CAP set a minimum price ‘floor’ for agricultural produce, and as a net importer, placed ‘variable tariffs’ on imports to avoid them undercutting the set floor. These artificial prices set by the CAP were unsustainable in the long run; perhaps agricultural markets should have been left to adjust and reduce production in line with consumption levels. European citizens had to pay a consumption tax on these imports which enabled the CAP to maintain the price floor. This tax was regressive, putting inequitable strain on the budgets of low income households, of which food makes up a large proportion. They also introduced direct payments to farmers in proportion to their output. These production-based payments benefitted large farms with access to machinery, technology and resources. In 2016, 15% of the CAP money went to 80% of farmers, and 85% to just 20% of farmers (Baldwin and Wyplosz, 2006, p. 217). The payments were also inefficient: large farmers already had low production costs due to their scale advantage; and the funds allocated to small farmers was insufficient.

Irrespective of these measures, they failed to tackle the fundamental supply problem and excess supply continued, with the EU becoming a net exporter. In order to maintain the artificial high prices the CAP was forced to make intervention purchases of the excess produce; creating stock piles. The CAP resorted to paying export subsidies to in effect ‘dump’ the excess produce in foreign markets, disrupting global trade. The output-based incentives damaged the environment through overgrazing,

² The fundamental problem in the agricultural industry was overproduction. Intervention only served to delay the issue when it could have potentially been resolved by market forces.

³ The ‘New Green Deal’ or the ‘European Green Deal’ is a framework towards achieving climate neutrality by 2050 while working towards becoming a more sustainable, circular economy

nd the use of pesticides and fertilisers among other intensive agricultural practices. The price supports did not match the costs incurred on the environment from the externalities of these measures.

IV. Policies and reform to date

After reform at the turn of the 20th century, the CAP returned prices to world prices and removed the price floor, restoring market forces. Direct payments were ‘decoupled’ from production levels however, payment subsidies fell quicker than output levels and supply remained a problem. Further reform was achieved with the Luxembourg Agreement in 2003, dividing the CAP funding into two new pillars: Pillar 1 for decoupled direct payments; Pillar 2 for rural development. The 1st pillar saw direct payments move to a per-hectare basis, and outlined cross compliance rules governing payments such as soil protection and avoidance of water pollution. The 2nd pillar outlined target areas for rural development such as ‘encouraging transition to a low carbon economy’ to name one. Per-hectare based payments are problematic: in Britain for example, the “average price of farmland has risen from below £4,500 per hectare to about £16,500 since 2003” (The Economist, 2020). This benefits larger farmers who are more likely to be landowners, as 40% of EU farmland is not owned by those who farm it (Baldwin and Wyplosz, 2006, p. 227), leaving smaller farmers empty-handed. Funding under the 2nd pillar is a promising step towards greater sustainability, but as you can see in the table below, it makes up less than a 3rd of the total budget.

V. Agriculture and the environment

The European Green Deal is “a growth strategy that aims to transform the EU into a... resource-efficient economy, with no net emissions of greenhouse gases (GHG) by 2050,...” (Matthews, 2020). The relationship between the Green Deal and the CAP is inextricable and, “a major leap must be achieved in the CAP ambitions to match the biodiversity targets of the Green Deal.” (Guyomard et al., 2020, p. 30). Bridging this gap will not only protect the environment, but will support farmers whose production costs have risen as a result of intensive farming practices, such as expenditure on inputs to substitute for eroded soils, over-exploitation of water sources, a loss of pollinators, and increased risk of pests and extreme weather as a result of climate change. Solving these problems also presents opportunities to farmers whilst working towards the objectives of the Green Deal. Improving soil health for climate

⁴ Including the United Kingdom.

⁵ These were in effect import duties.

⁶ The CAP was forced to set prices above those in the global market in order to preserve farmers’ incomes.

⁷ Payments to farmers only made the overproduction problem worse, simultaneously causing negative externalities for the environment.

⁸ Also known as the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD).

resilience coupled with reducing dependence on pesticides to protect pollinators are also both prerequisites for an efficient and profitable agricultural sector (Matthews, 2020). Furthermore, the Green Deal creates opportunities in the bio-economy, meaning farmers can supply biomass. By making use of their food waste and producing biomass as renewable energy, carbon markets will be able to reward farmers for emissions reductions (Matthews, 2020). The ‘polluter pays principle’ is ineffective for agricultural emissions as any taxes only subtract from the per-hectare subsidy, placing no additional burden on farmers to reduce their emissions. This is another reason why these subsidies must be reformed.

VI. Technological progress

In order to better align the objectives of the Green Deal with the CAP, research and innovation through comprehensive investment is required. The agricultural sector is calling out for its second technological revolution and requires capital to realise this goal. Smart farming, precision farming, and digital farming enable substantial savings on inputs whilst increasing quality and yields (Matthews, 2020). Horizon Europe’s €10 billion for research and innovation in agriculture should be replicated by member states (Matthews, 2020). The EU must also apply its hegemonic regulatory power to the sector to increase competition. High standards must be adhered to by competitors to maintain competition and avoid undercutting whilst enabling EU farmers to charge a premium for their produce, all aiding the required technological advancements. Access to the EU market is already subject to product safety and quality standards thus, also applying these to production practices will help recoup some of the higher production costs from the market and enable producers to charge this premium (Matthews, 2020). There have been proposals for a carbon border tax (CBT) however, it would be limited to the sectors included in the Emissions Trading Scheme (ETS) which does not include agriculture (Matthews, 2020). Expansion of the ETS in order to cover agriculture and in turn the implementation of a CBT, would be beneficial measures in reducing GHG emissions.

The CAP is the main source of funding at the EU level in supporting the green transition and this funding is split between the EAGF and the EAFRD or Pillar 1 and 2. The majority of the CAP funds, 290 of 374 billion euros (roughly) from the table below, are disbursed as direct payments to farmers under the EAGF. As previously mentioned, the skewed and inequitable distribution of payments is an inefficient use of funds in terms of funding the ambitious green transition due to the per-hectare framework favouring large landowners.

⁹ Biomass can be converted into bioethanol or biodiesel which can be used as a renewable energy source to power vehicles for example.

¹⁰ The EU should reform farming subsidies in order for carbon taxes to be more effective in the agricultural industry. Additionally, the introduction of a carbon border tax would prevent foreign competitors exploiting their cost advantage, and undercutting European prices.

¹¹ A scientific research and innovation programme for the EU running from 2021-2027

This funding could be better allocated with the replacement of per-hectare payments with results-based payments for GHG emission reductions and the adoption of sustainable farming practices such as maintaining hedgerows. This would encourage sustainability and enable the CAP to work towards the goals of the new Green Deal. The remaining 84 billion euros is allocated under EAFRD for rural development projects across the sector.

Summary of proposed CAP allocation for 2021-2027

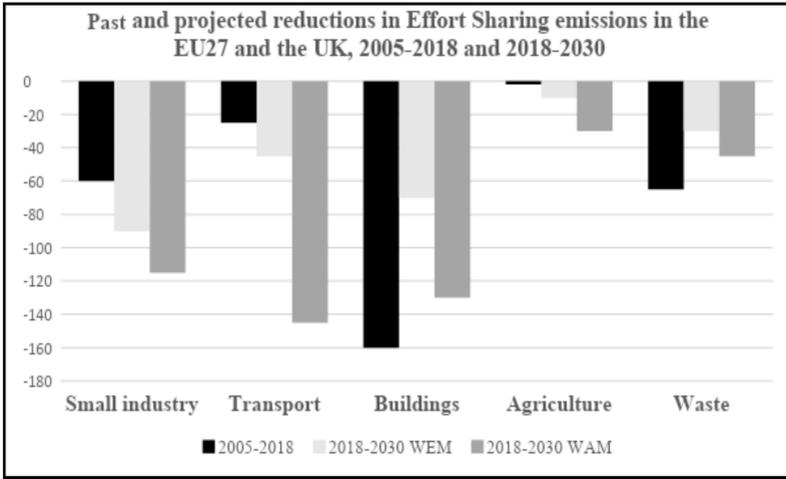
(in EUR million)	2018 prices	Current prices
EAGF (Pillar 1)	258,251	290,702
EAFRD (Pillar 2)	75,013	84,255
Total	333,264	374,957

Source: https://ec.europa.eu/commission/presscorner/detail/en/QANDA_20_985 (The European Commission, 2020).

Furthermore, progress towards meeting emission reduction targets by 2030 is measured by GHG emissions alone. This doesn't take into account carbon sequestered in the sector through soil cultivation, tree planting, and the creation of carbon sinks. As illustrated in the graph below, in the period 2005-2018 agriculture contributed just 1% in emissions reductions. The light grey bars represent the projected GHG emission reductions for 2005-2018 With Existing Measures (WEM), and the dark grey bars represent reductions With Additional Measures (WAM). Both these past and projected reductions would be improved if the measurement of GHG emissions accounted for carbon removals. Regardless, a rapid increase in investment and action is needed in order to improve the projections for the agriculture industry in comparison with the other industries listed. This could be aided by amending measurements of GHG emissions to account for carbon removals, as the agricultural industry has a key role to play through the creation of carbon sinks such as the maintenance of hedgerows, among the other measures mentioned.

¹² Natural or man-made reservoirs where carbon accumulates and can be stored thus, removing it from the atmosphere. Natural sinks can be found in soil or hedgerows for example.

¹¹ WEM indicates the projected reductions under the status quo, and WAM indicates the projected reductions with the implementation of new measures such as a CBT.



Source:

<https://www.eea.europa.eu/themes/climate/trends-and-projections-in-europe/national-action-across-all-sectors> (European Environmental Agency, 2020).

VII. Conclusion

The CAP has come a long way from short-sighted market interventions and dumping in foreign markets, though it still has leaps and bounds to go in order to meet the objectives of the Green Deal. It first must amend its funding model, moving away from simple per-hectare subsidies towards results-based payments focused on GHG emission reductions and sustainable farming practices. This will improve the effectiveness of carbon taxes for continued malpractice, and will enable the CAP to reward sustainable and environmentally-conscious farmers while aligning with the Green Deal. Secondly, the EU and national governments must invest more in research and innovation in the sector. The new EU Taxonomy, a clarification system for sustainable economic activity, serves as a basis to direct loans and capital flows towards sustainable investment, and will assist in directing resources to the appropriate projects (Guyomard et al., 2020, p. 22). With this new taxonomy and substantial investment, the agricultural sector can make a smooth transition towards greater sustainability. The CAP has managed crises before; with improved efficiency there is no reason it cannot again.

¹⁴ It contains 6 objectives which are linked to the Green Deal and 4 additional “requirements for economic activities to be considered environmentally sustainable.” (Guyomard et al., 2020, p. 22).

VIII. References

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