Reform of the Common Agricultural Policy (CAP)

The most frequently asked question posed by Irish farmers is what will happen to the single farm payment post-2013. But there are also concerns about how the EU will provide for effective support to ensure that farmers survive the massive commodity price volatility arising from increased globalisation. Ireland East MEP, Mairead McGuinness, looks at how the debate is shaping up.

The Common Agricultural Policy (CAP) is rarely out of the spotlight. This year the process of reforming it has, yet again, begun in earnest with the target of having the new policy in place by 2013.

Discussions are taking place on farms, in marts, food plants and parliaments throughout the EU. Needless to say there is little consensus among the various players about the shape of the reforms.

In the European Parliament opinions vary, from calls for radical reform to calls for no change whatsoever. One thing is certain - change is on the way.

Lisbon Impact

Arising from the Lisbon Treaty, the European Parliament will have a much greater say in the decision-making process. 'Co-decision' will see the Parliament equally involved with the European Commission and the Council. With power comes responsibility. Those who fear that the Parliament will push the reform agenda too far should not be overly concerned.

Agriculture accounts for 40pc of the EU Budget. While funding for the CAP is fixed until 2013, there is no certainty about the level of funding beyond then. The talks take place against the backdrop of a review of all aspects of the EU Budget, with a particular emphasis on agriculture.

Tony Blair's Legacy

Naturally, at a time when money is scare and member state budgets are tight, it is not unexpected that some would see the agricultural budget as ripe for raiding. Late last year a so-called European Commission 'non-paper' suggested reducing spending on agriculture in favour of other policies. While this paper was withdrawn from circulation, it does reflect the tough battle ahead.

Given the economic pressures, there appears to be little appetite among member states to contribute any additional money to the EU. Those who are already net contributors are firmly fixed against paying more. We can thank former UK Prime Minister, Tony Blair, for the budgetary review and its specific focus on agriculture. Mr Blair was never a fan of supporting agriculture and this is his legacy.

New Member Pressures

A further call for change is coming from the new EU member states, who believe that the current distribution of farm aid is unfair to them. Disparities in single farm payments across the member states are great with Latvia being the lowest at less than €100 per hectare, Greece is over €500 per hectare and Ireland comes in at just over €300 per hectare. These differentials reflect the level of production in the reference years when the single farm payment was introduced. The variation in payments entails that there is significant pressure to find a fairer method of distribution. This is of particular concern to young farmers who have limited access to entitlements and who believe that they are disadvantaged as a result. Needless to say it will be well nigh impossible to satisfy all groups.

Food Prices

The key issue for Ireland is to retain the €1.3 billion in transfers to agriculture and to ensure that the CAP provides for the security of our important food industry.

In recent years, farmers and consumers have witnessed massive swings in commodity and food prices. In 2007/2008 commodity prices, especially milk and grain, rose dramatically. The price hikes resulted in food riots in the developing world and concerns within the EU about ever increasing consumer food prices. This sparked a debate about food security and the longer-term problems of providing sufficient food for an ever increasing world population. Since those price hikes farmers have experienced a collapse in prices, with real concerns expressed for the survival of the grain sector in Ireland and for the future of dairy farming. While farmers' prices fell, consumer prices did not fall to the same extent. It is worth noting that the new European Commissioner for Agriculture, Dacian Ciolos, has said that a legislative proposal will be forthcoming from the Commission on issues concerning the food supply chain.

Market price trends will, I believe, impact on the CAP reform process. The single farm payment provides some level of income security to farmers. There are justified concerns about the impact of its withdrawal.

CAP Look Back

The Franz Fischler reforms of 2003 which brought in the single farm payment were supposed to reduce bureaucracy for farmers and bring about better market prices.

The decoupled single farm payment allowed farmers to switch enterprises and continue to receive EU support for their production levels in the reference years of 2000, 2001 and 2002. The historical basis of the payments has left them open to attack by those who believe that it is no longer acceptable to pay farmers public money based on what they produced in the past. Indeed Commissioner Ciolos has said that there could in future be flexibility for member states in relation to direct payments, with criteria set at EU level, but adjustments possible to accommodate local issues in member states.

New Focus

The new focus is on the supply of public goods - environment, climate change, water management and biodiversity - and payment for same. Many environmental lobbyists point to the need to switch payments away from the historical basis and more towards these areas. Indeed the World Wildlife Fund believes that the word 'agriculture' should be dropped from the Common Agricultural Policy and replaced by a Common Environment and Rural Policy by 2016.

Reform Option Risks

While I don't see this happening in the current round of reforms, it is important that those who believe in a strong CAP are aware of the pressure points.

There is also the old argument that most of the money goes to larger farmers, hardly a surprise given that it is based on past production levels. The call for a rebalancing of payments between farmers and within member states will intensify.

Some propose that there should be a flat rate payment made per hectare - but this would, I believe, be a step too far. It would involve a major shift in resources within member states and between member states. It would also give the same payment per hectare, regardless of costs of production.

Furthermore, there is a danger that a land linked payment would become capitalised into land prices and land rental values and militate against the interests of active farmers, which is the target for the CAP, not land owners.

Teagasc has produced a study examining the impact of introducing a per hectare payment. The result would be a transfer of funds from east to west - good news for farmers in the west of Ireland, less so for those in the rest of the country.

Apart from the big debate about how the single farm payment is distributed, there is also concern about the need for market support measures to avoid the unacceptable collapse in commodity prices. It is important that supports are pitched at a level that impacts on producer prices in times of crisis.

It is also important that the same level of attention is paid to ensuring that these measures are included in the CAP post-2013 as is currently being given to the redistribution of the single farm payment.

Worst Case Scenario

The worst case scenario for Ireland would be a move towards co-financing by Ireland of the single payment. Co-financing is another way of saying renationalisation of the CAP - giving the member states the freedom to support their farmers. This would result in a distortion between farmers, with richer member states having the resources to pay, while poorer ones would not. ◆