Common Agricultural Policy [1]

What is the Common Agricultural Policy?

The Common Agricultural Policy [2] (CAP) is the EU policy to provide financial support to farmers in member states. It is one of the founding policies of the original Common Market, and brings together national intervention programmes into one scheme to allow farmers to compete on a level playing field while protecting against volatility in agricultural prices (and hence incomes) and to provide food security.

Article 39 of the European Union Treaty [3] sets out the specific objectives of the CAP:

- to increase agricultural productivity by promoting technical progress and ensuring the optimum use of the factors of production, in particular labour
- to ensure a fair standard of living for farmers
- to stabilise markets
- to ensure the availability of supplies
- to ensure reasonable prices for consumers.

In the early days of the Common Market, agricultural spending absorbed 80% of the budget. It is now a significantly lower share, as the EU has developed other budget lines, but still accounts for 38% of the EU budget of just over €140 billion [4].

What does the CAP do?

For most of its existence, the CAP provided income support to farmers by supporting the prices they were paid for produce. But this system was widely criticised for encouraging overproduction, leading to notorious wine lakes and butter mountains – [5] produce that was then often dumped in third markets with adverse impacts on local agriculture.

Following a major CAP reform in 2005, there are two big strands to CAP payments: one for direct income support (pillar 1) and the second for rural development (pillar 2). Direct income support is much a much bigger programme than rural development.

CAP payments are an important part of farm incomes in the UK: the Department for Environment, Food and Rural Affairs (Defra) estimated that payments represented 55% of farm incomes in 2014. Those payments could also be regarded as subsidies to food prices. Because EU payments are denominated in euros, farmers get more when sterling depreciates and vice versa.

What is the difference between the two pillars?

Pillar 1 payments are direct income support payments to farmers. To remove any incentive to overproduce, payment (now known in England as the Basic Payment Scheme [6]) is based on the amount of land a farmer owns, not how much they produce. This money comes direct from the EU and is administered by national governments (Defra for farmers in England, the devolved administrations for Scotland, Wales and Northern Ireland). In order to qualify for payment, farmers have to meet certain standards on environmental management, animal welfare standards and traceability – these conditions are known as 'cross-compliance'. Member states can also apply market support measures in certain conditions – the UK has used this to support dairy farmers when prices have been particularly low.

Pillar 2 requires co-financing from member state governments. The EU describes the purposes [7] of this as:

- fostering the competitiveness of agriculture
- ensuring the sustainable management of natural resources
- combating climate change
- achieving a balanced territorial development of rural economies and communities including the creation and maintenance of employment.

How much does it cost?

The CAP is one of the big EU programmes, with a total budget of just under €60 billion. France topped the list in 2014, [8] with payments worth €8.5 billion. Next came Spain, Germany and Italy.

Most of the money paid to farmers comes from the EU budget, paid for by contributions from member states, including the UK. The UK then tops up from domestic expenditure to pay for “co-financing of pillar 2 schemes”. In 2015 those top ups cost €250 million for the whole of the UK. The breakdown of payments for the whole UK [9] is set down below for EU budget year 2015, in € millions.

Pillar 1 (Total)

Of which:

Direct payments

Market support

3,150 3,112

38

Pillar 2 (Total)

3,150 959

Of which:

EU

UK co-financing

3,150 709

250

Total UK CAP payments

3,150 **4,109**

Pillar 1 (Total)	**3,150**
Of which:	
Direct payments	3,112
Market support	38
Pillar 2 (Total)	**959**
Of which:	
EU	709
UK co-financing	250
Total UK CAP payments	**4,109**

Is CAP the only way the EU supports farming?

Those are not the only costs of the CAP. Defra has also had to pay fines for mismanaging farm payments. This is called “disallowance” and is quite big money. In his comment on Defra’s 2015-16 accounts [10] the

Comptroller and Auditor General, Sir Amyas Morse, noted that: “The total value of cumulative disallowance penalties incurred under CAP 2007-13 is £661 million” – or over £90 million a year.

No. The other leg of EU agricultural support is through trade policy. Many producers from outside the EU pay tariffs on goods they import. The Common External Tariff is low on most manufactured goods but remains high on agricultural goods. This protection is another form of income support to EU farmers – but at the expense of consumers rather than taxpayers.

Why is EU agriculture policy controversial in the UK?

The UK gets much less from the CAP than it contributes.

But the CAP has also been criticised for encouraging farming practices that damage the environment. One indicator of the degree of environmental damage is the dramatic decline in farmland birds [11] in recent decades. What is impossible to judge is what would have happened under potential alternative policies.

The CAP benefits large landowners [12] just for owning more land. EU protectionism on agriculture has been criticised [13] for the costs it imposes on consumers through higher food prices and the costs it imposes on developing countries [14] by making it difficult for them to compete with EU farmers.

How might the UK’s agriculture policy change after Brexit?

The current Government says it will continue to make payments to UK farmers on the same basis as now until 2020. Negotiations are already underway within the EU on how the next round of CAP reform, so the CAP will change in any case (and may need substantial reform give the budget shortfall post-Brexit).

But the UK will need to decide whether it wants to continue paying income support to farmers on a similar basis to Europe (to allow them to compete, as some in the industry [15] argue) or whether it is an opportunity to complete reinvent policy, for example by focusing payments on provision of environmental services alone.

What does the UK Government say?

Before the referendum, the Government was planning [16] to publish 25-year strategies for both food and farming and for the environment. But these have still not appeared. Former Environment Secretary Andrea Leadsom pledged [17] to remove one of the cross-compliance restrictions on farmers – the “three crop rule” – something described by the National Farmers Union as “utter madness”.

In the June 2017 Queen's Speech, the Government announced an 'Agriculture Bill'. This will aim to ensure that there is an effective system in place to support UK farmers and to protect the natural environment post-Brexit. The actual substance and nature of this system is unclear for now.

What about the devolved administrations?

Both agriculture and environment policies are fully devolved, but the freedom of individual nations to diverge from existing rules is constrained by the policy frameworks being set by the EU. This will change after Brexit.

The devolved administrations expect the powers coming back from Brussels to be fully devolved straight away. The UK Government’s Great Repeal Bill White Paper [18] takes a different line and does not accept that powers should be automatically devolved. Instead it stresses the need to agree “common frameworks” with the devolved administrations to limit divergence to allow the UK single market to operate without unfair competition – and to allow the UK Government to negotiate future trade deals.

The other issue will be money. At the moment CAP money flows from the EU and passes onto the devolved nations, all of whom receive significantly more CAP funding per capita than England. [19]The UK Government will have to reach agreement with the devolved administrations on how agriculture spending fits into any future fiscal framework.

Links
[1] https://www.instituteforgovernment.org.uk/explainers/common-agricultural-policy
[2] https://ec.europa.eu/agriculture/sites/agriculture/files/cap-funding/pdf/cap-spending-09-2015_en.pdf

[3] http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU_5.2.1.html
[4] http://ukandeu.ac.uk/wp-content/uploads/2016/04/BN181.pdf
[5] http://www.economicsonline.co.uk/Global_economics/Common_Agricultural_Policy.html
[6] https://www.gov.uk/government/collections/basic-payment-scheme
[7] https://ec.europa.eu/agriculture/cap-funding/funding-opportunities
[8] http://capreform.eu/gainers-and-losers-from-the-cap-budget/
[9] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/557993/AUK-2015-05oct16.pdf
[10] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/547296/defra-annual-report-2015-2016-web.pdf
[11] https://www.bto.org/sites/default/files/publications/state-of-uk-birds-2016.pdf
[12] http://energydesk.greenpeace.org/2016/09/29/common-agricultural-policy-millions-eu-subsidies-go-richest-landowners/
[13] https://iea.org.uk/blog/abolish-the-cap-let-food-prices-tumble
[14] https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7279.pdf
[15] https://www.nfuonline.com/misc/press-releases/nfu-launches-biggest-farming-conversation-for-a-generation/
[16] https://www.fginsight.com/news/news/truss-and-industry-meet-to-kick-start-25-year-food-and-farming-plan-4837
[17] https://www.gov.uk/government/speeches/environment-secretary-sets-out-ambition-for-food-and-farming-industry
[18]
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/604516/Great_repeal_bill_white_paper_accessible.pdf
[19] https://www.instituteforgovernment.org.uk/sites/default/files/publications/IfG_four%20nation_Brexit_briefing_v6.pdf