



Reform of the Common Agricultural Policy is laying the initial foundations for a European agricultural climate policy

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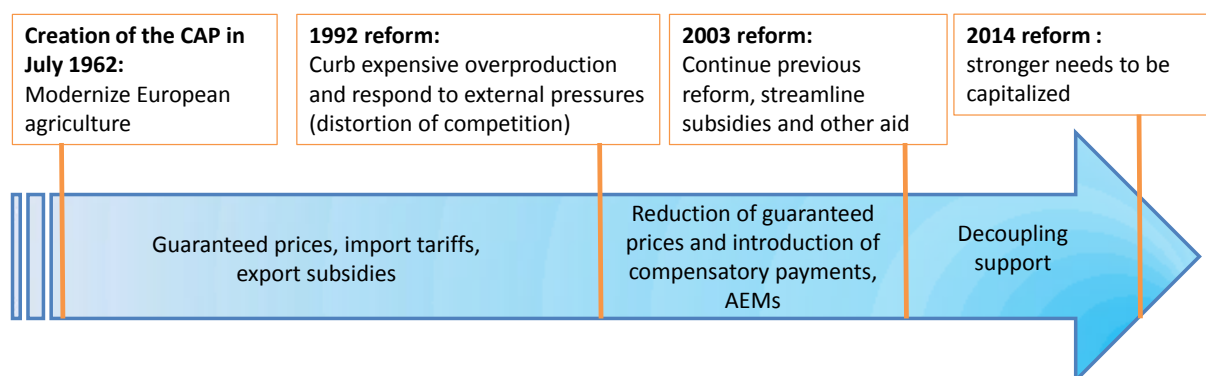
The reform of the Common Agricultural Policy is laying the initial foundations for a European agricultural climate policy

The Common Agricultural Policy (CAP) has had a very small climate component since 1992. The recent inclusion of green payments and the climate risk management tools proposed for the CAP for the period beyond 2013 illustrate the European Commission's willingness to expand this climate component. Furthermore, there is little mention of the agricultural sector in the tools rolled out by the European climate policy, particularly those derived from the 2009 "Climate & Energy" Package. Therefore, even if this autumn's parliamentary debate results in the reform proposals being diluted, the post-2013 CAP could nevertheless become a principal tool for a common EU climate policy in the agricultural sector.

Background: new challenges to be incorporated in the 2014 reform

A brief history of the CAP's main challenges

Figure 1 – The major reforms to the CAP



Source: CDC Climat Research

The CAP, which was initially drawn up to modernise the European agriculture sector and ensure food self-sufficiency, rapidly reached and exceeded its initial goals. The policy of supporting prices via taxes on imports and establishing price guarantees has enabled farmers to be guaranteed a minimum income. The resulting modernisation of the agricultural sector led to a sharp increase in production, to the point where a portion of the CAP's budget was being used to subsidise the export of excess foodstuffs, mainly cereals and milk. The introduction of milk quotas in 1984 marked the first deviation from the initial production targets¹. The 1992 reform extended this deviation via a reduction in intervention prices, accompanied by the introduction of compensatory support that was paid directly to farmers conditional on leaving a portion of land fallow. These measures enabled a partial

¹ These targets will nonetheless be scrapped in 2015, which is expected to result in an increase in production

readjustment of production to respond to European demand for agricultural foodstuffs. Moreover, environmental concerns emerged due to the conditionality² of direct support and of agri-environmental measures (AEMs)³. The decoupling of support was central to the 2003 reform, which used a calculation based on the area cultivated rather than on the quantity produced, with the continued aim of reducing demand and complying with WTO regulations.

These successive reforms were the basis for the CAP as we know it today, which is based on two pillars with different, but complementary, targets (Figure 2):

- the First Pillar corresponds to *direct support*, for which the allocation rules are mandatory, and shared by all countries. It also provides marginal support to markets, including support for exports, and help with distribution and sales on the internal market, etc.;
- the Second Pillar corresponds to rural development, and is jointly financed by Member States. It primarily includes voluntary agri-environmental measures that have been adapted to specific regional contexts.

The European Commission clearly states that one of the aims of the reform was to make the CAP a tool to assist the agricultural sector combat to climate change, and adapt to new climate conditions. The CAP currently represents around 40% of the European budget, and involves the 27 Member States of the European Union. In this respect, the CAP is an important tool for reaching European emissions reduction targets in the agricultural sector.

The European climate policies address peripherally the agricultural sector

The European Commission and the European Parliament have adopted a “Roadmap towards a Low Carbon Economy” which sets out greenhouse gas emission targets for 2050. According to this roadmap, the agricultural sector is expected to reduce its emissions by between 42 and 49% compared with 1990⁵. At this stage, however, the Roadmap has not been adopted by the Council of Ministers, and does not therefore amount to a legal obligation.

The 2020 targets for agricultural emissions are relatively vague. The Effort Sharing Decision (2009/EC/409) has set a target of reducing emissions by 10% by 2020 compared with 2005 for emissions that are not included in the scope of the European greenhouse gas allowance scheme, which is the case for most agricultural emissions.

Furthermore, in March 2012, the Commission published draft rules for recognising emissions linked to the land use, land-use change and forestry (LULUCF), which are expected to enter into force in 2013. Carbon sequestration and CO₂ emissions from agricultural land will therefore soon be taken into account (See [Climate Brief n°17](#) for further details on this point).

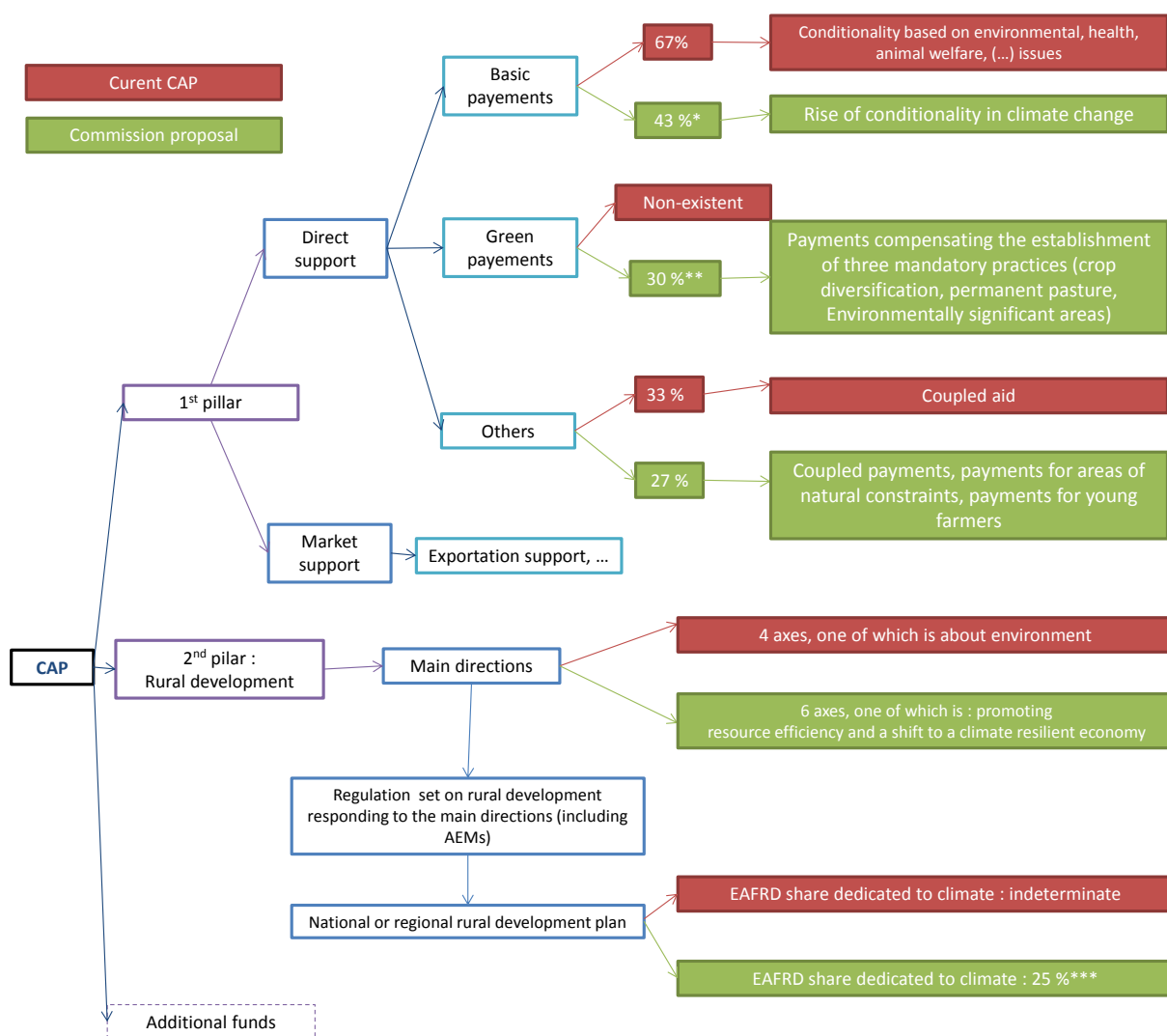
² Conditionality is a system that submits the payment of First Pillar support to compliance with a certain number of environmental, health, and animal welfare requirements.

³ The AEMs belong to the Second Pillar of the CAP, and correspond to voluntary agreements, under which farmers commit to adopting or continuing environmentally-friendly practices, for which they receive financial compensation that is calculated according to the income lost due to these practices.

⁴ Decoupled support is currently tolerated within the WTO framework, as its competition distortion effect is immaterial compared with that generated by guaranteed prices or by coupled support.

⁵ This only includes methane and nitrogen oxide emissions. Carbon sequestration and CO₂ emissions from soils are not included within the framework of the March 2011 Roadmap.

Figure 2 – Structure of the CAP and proposed changes for 2014



Source: CDC Climat Research.

*This is the minimum percentage of the annual national caps on direct payments dedicated to "basic" payments. In fact, this percentage is calculated by deducting the other kinds of payments granted under the First Pillar.

**This percentage must be applied to annual national direct payment caps.

***At least 25% of the support from the EAFRD within every national or regional programme must correspond to climate-related measures.

This demonstrates that the agricultural sector is, in fact, included in the Union's climate targets, but that the economic tools introduced up until now affect it only slightly:

- the agricultural sector plays a marginal role in the **European greenhouse gas emission allowance scheme** as less than 0.1% of the emissions are covered by this tool. Covered emissions include CO₂ from heated greenhouses, while N₂O and CH₄ emissions do not fall within the scope of the EU ETS;
- the **Renewable Energy Directive** will enable the partial use of agricultural biomass, but will have little effect on the sector's emissions, strictly speaking, as the percentage of energy-related emissions in agricultural emissions is around just 10%.

News: the debate on the proposed reform has been blocked by the issue of the European Union's budget

The current CAP was adopted for a period extending to the end of 2013. The debate on this new reform has intensified since late 2011, with the publication of the Commission's proposals regarding the future CAP.

The European Commission has included the climate issue in both pillars of the CAP

On 12 October 2011, the European Commission published its legislative proposals for reforming the CAP. These proposals are based on seven regulations that specifically address direct payments, rural development, the setting up of a single Common Market Organisation (CMO), and the financing, management, and monitoring of the CAP⁶. Two major changes are emerging:

- **the convergence of support:** direct support is unequally spread among countries, but also between regions in the same country, and between the various agricultural sectors. The spread of payments/distribution of payments has been left to the discretion of each country according to the subsidiarity principle (historical and regional benchmarks, etc.). The rebalancing of support is one of the major challenges of the CAP reform. It is also the main sticking point: the Member States that currently receive the most support are in favour of progressive rebalancing. This is specifically the case for France, Germany and Italy. Conversely, the new EU entrants receive markedly fewer benefits from the CAP, and wish to see greater equality in the way support is allocated;
- the increasing importance placed on the **environment and the climate** via the two pillars of the CAP.

30% of the First Pillar will be green

30% of the budget for the First Pillar proposed by the Commission, which represents around 75% of the CAP, i.e. €317 billion over the period between 2014 and 2020⁷, could be allocated to farmers as compensation for implementing the following three practices:

- **crop diversification:** Any farm of over three hectares must include at least three different crops, with at least 5% of the land dedicated to minor crops, and 70% at most to major crops;
- **permanent pasture:** farms must retain at least 95% of their permanent pasture;
- **ecologically significant areas:** Farmers must keep at least 7% of their admissible land as ecologically significant areas (set-asides, terraces, buffer areas, wooded areas, and hedges, etc.).

As permanent pasture and ecologically significant areas usually have a soil that is more carbon-rich than crops, these measures ought to encourage overall sequestration of carbon in the soil. Diversified crop rotation could result in a reduction in the use of chemical inputs, especially the use of nitrogen-based fertilisers in the event of a rotation involving legumes. Crop diversification could therefore help reduce N₂O emissions in the field. However, the main goal remains the biodiversity of agricultural land.

⁶ The other proposals involve establishing certain forms of support and export refunds, the application of transitional measures for 2013, and the single payment and support for winegrowers scheme.

⁷ This figure has been drawn from the Commission's proposed multi-year financial framework for the period between 2014 and 2020. As the budget had not been approved by the European Parliament at the time when this Point Climat was written, the figures presented here are subject to change.

The greening of the First Pillar enables the generalisation of large-scale environmental practices, and by aggregating the efforts made by all European farms, significant results should be achieved. A critical mass effect is being applied here, through three measures that aim to be simple to implement and with minimal monitoring costs. However, generalising a set of three predefined measures within 27 different countries that all have very different agricultural practices means that they may not always be the best suited to the local environment. For example, these measures are going to be much more costly to implement for some farmers – like major cereal producers – than for others, such as large cattle farmers.

In addition to these green payments, the so-called “basic” payments that already existed within the CAP prior to 2014 would be subject to a new “conditionality” relating to the protection of carbon-rich soils and wetlands. Therefore, in a context where the desire for simplification has led to a reduction in the number of conditions, the climate issue is being included in the criteria that condition direct support.

At least 25% of the Second Pillar will have a climate component

The budget for the European Agricultural Fund for Rural Development (EAFRD) proposed by the European Commission amounts to €101 billion for the period between 2014 and 2020. This budget enables the joint financing of national or regional rural development programmes. The EAFRD participation rate must be at least 20% and at most 50%, except for a few exceptions, where it may reach 85%. It should be noted that the Commission has suggested that Member States may transfer up to 10% of First Pillar support to the Second Pillar, in order to provide more flexibility. 25% of the support from the EAFRD should be dedicated to initiatives that contribute to mitigation, and to adapting agriculture to climate change across all rural development programmes.

In its proposed rural development regulations, the European Commission has identified six priorities that must guide all the measures to be financed by the Second Pillar across all sectors. One of the priorities is to “*promote the efficient use of resources and to support the transition towards a low-carbon and resilient economy in the face of climate change*”. There are a number of measures that have a direct impact on emissions or on carbon sequestration in agricultural soils, notably:

- agri-environmental and climate payments that are granted every year, in an amount that is equivalent to the costs generated by the implementation of a measure that benefits the environment and the climate. Commitments must be made for a minimum of between five and seven years, and go beyond existing regulations and the conditions of the First Pillar;
- a per hectare premium covering the implementation and maintenance costs for an agro-forestry scheme over a three-year period.

Other measures that have a more indirect impact on emissions have also been proposed:

- granting decreasing gradually support over a five-year period to advisory or training bodies that encourage the implementation, *inter alia*, of practices that enable a farm’s emission balance or resilience to climate change to be improved;
- support aimed at encouraging cooperation between various players . It has been specified that it covers “*joint measures taken for the purpose of adaptation to climate change and of mitigating that change*”. This support will apply for a maximum period of seven years.

In addition, a portion of the Second Pillar will be dedicated to risk management, which includes climate risk, through the use of insurance premiums. These premiums may only be paid if the competent authority recognises the climate phenomenon in question as unfavourable for agriculture, and if that phenomenon has resulted in a production loss of over 30% compared with the average for previous years.

The amendments of the Members of Parliament seek to relax the rules

The proposals for reforming the CAP are now in the hands of the Members of Parliament. Luis Manuel Capoulos Santos, a Socialist MEP, was responsible for drawing up the reports on direct payments and rural development delivered in June 2012. The main aim of the MEP's report was to improve the coordination of measures between the two pillars, and give greater consideration to agricultural diversity.

Relaxed conditions for the First Pillar's "green" payments

Where the First Pillar is concerned, the report proposes, *inter alia*, to give the Member States the opportunity to develop "green" payments, aside from the 30% initially provided for, and conversely, in the event that the 30% are not fully distributed, to transfer them to the Second Pillar, with no national joint financing. The "access" conditions for these "green" payments have been relaxed, waiving some conditionality practices, and reducing constraints for the smallest farms:

- areas that are the subject of agri-environmental measures, and farms with an environmental certification are automatically eligible for "green" payments;
- permanent crops (olive trees, and vines, etc.) will be able to benefit from "green" payments, with no other conditions than the implementation of soil protection and conservation practices, like permanent soil coverage. This would only apply to farms of less than 50 hectares, and where permanent crops occupy over 80% of the total eligible area;
- where crop diversification is concerned, the requirements would be relaxed for farms of between 5 and 20 hectares, for which the mandatory number of crops would be reduced from three to two;
- the mandatory 7% for ecologically significant areas (ESAs) would only apply to farms of over 20 hectares, and would be reduced to 5% per farm in the event of equivalent contiguous areas between two farms. It has also been proposed that nitrogen-fixing crops be accounted for within the ESA figure, in breach of the current definition, which requires that ESAs are not harvested land.

Few consequences on the Second Pillar's climate component

The report also specifies the application conditions for the climate risk insurance scheme and indicates that the loss assessment may be carried out, where necessary, using climate data like rainfall or temperatures; it recommends a minimum mandatory allocation of 30% of the EAFRD budget to agri-environmental and climate measures.

Following these reports, a number of proposed amendments were filed by MEPs before 10 July 2012. A debate on these proposals between the various political groups in the European Parliament will begin in the autumn of 2012.

The answer from the Council of Ministers: climate will remain a second priority

Although there is relatively strong opposition between countries that are the major beneficiaries of direct support and countries receiving smaller amounts of support, primarily where the convergence is concerned, there is unanimity regarding environmental and climate measures. All parties agree to allow the Member States greater freedom for choosing the conditionality of green payments, in the name of agricultural diversity. Some Member States have proposed a range of around ten conditions, from which Member States could select the three measures that are most suited to their particular context.

In contrast, opinions are divided regarding the risk management tool proposed by the Commission as part of the Second Pillar. France is broadly favourable to the tool, inasmuch

as risks relating to climate change are increasingly evident. Other countries, such as Germany, the United Kingdom, and Sweden, are opposed to the tool, as they fear that the financing of risk management via the EAFRD will occur at the expense of environmental and climate measures. Moreover, this tool could have a perverse effect, to the extent that it may not encourage farmers to adapt to new climatic conditions.

The EU budget for the period between 2014 and 2020 has still not been adopted

It is becoming increasingly likely that the reform of the CAP, which was initially expected to enter into force on 1 January 2014, will be postponed for a year. This likely delay stems mainly to the problems that the Member States are experiencing in reaching an agreement on the Union's budget for the period between 2014 and 2020. Seven States⁸ have even signed a non-official document calling for the 2013 budget to be frozen. They believe that the Commission's proposal to increase the budget by 3% during a period of economic crisis is unrealistic. These countries want budgetary restrictions, and wiser spending that focuses on sustainable growth. Conversely, the new Member States are in favour of boosting the European budget. Once this budget is adopted, the remaining disagreements regarding the CAP are not expected to delay the new CAP's entry into force by more than one year.

Timetable

- **29 June 2011:** the Commission published its proposed budget for the European Union for the period between 2014 and 2020;
- **12 October 2011:** the Commission published its proposals for the 2014-2020 CAP;
- **December 2012:** The Council and Parliament approved the European Union budget for the period between 2014 and 2020 ;
- **2012-2013:** debate on the CAP in the European Parliament and in the Council, and approval of the regulations relating to its reform;
- **1 January 2014:** scheduled entry into force of the new CAP.

⁸ The countries that signed the document were Germany, Austria, Finland, the Netherlands, the Czech Republic, the United Kingdom, and Sweden. France and Italy were part of the group before their governments changed.

To find out more...

- European Commission, Proposed regulations for the European Parliament and Council establishing the rules relating to direct payments to farmers under the support schemes governed by the Common Agricultural Policy, 12 October 2011
http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/com625/625_fr.pdf
- European Commission, Proposed regulations regarding support for rural development from the European Agricultural Fund for Rural Development (EAFRD), 12 October 2011
http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/com627/627_fr.pdf
- European Commission, Commission Communication to the European Parliament, to the Council, to the European Economic and Social Committee and to the Regional Committee, *A Budget for the Europe 2020 Strategy*, 29 June 2011
http://www.euractiv.fr/sites/default/files/communication_commission.pdf
- European Parliament, Draft report on the proposed regulations establishing the rules relating to direct payments to farmers under the support schemes governed by the Common Agricultural Policy, 5 May 2012
<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fNONSGML%2bCOMPARL%2bPE-474.052%2b01%2bDOC%2bPDF%2bV0%2f%2fFR>
- European Parliament, Draft report on the European Parliament and Council's proposed regulations regarding support for rural development from the European Agricultural Fund for Rural Development (EAFRD), 24 May 2012
<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fNONSGML%2bCOMPARL%2bPE-474.053%2b01%2bDOC%2bPDF%2bV0%2f%2fFR>

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