Update on the CAP Health Check

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Europe's Common Agricultural Policy (CAP) has been reformed substantially in the past decade. The 2003 reform, which decoupled farm payments from production, created a new Rural Development Fund and introduced budgetary disciplines and a new financial mechanism, set the parameters for subsequent reforms. The CAP 'Health Check', agreed on 20 November 2008, continues this reform process for the period 2009-2012 but does not alter the EU's trade policy regime for agricultural products.

The objectives of the Health Check

The Commission circulated a communication "Preparing for the 'Health Check' of the CAP Reform" to the Council and the Parliament in November 2007. The main objectives of the Health Check as outlined by the Commission were:

- to facilitate the system of payments to farmers and make it more effective;
- to adapt market instruments bearing in mind the ongoing globalisation process;
- to incorporate new challenges such as climate change, water management and the growing importance of biofuels; and
- to respond better to existing challenges (such as preserving biodiversity).

What has been agreed?

Given the diversity of interests among European member states and within European institutions the agreement on the Health Check was a delicate balancing act. The European Council finally agreed on reform proposals in November 2008 (these do not have to be agreed by the European Parliament which has only consultative authority when it comes to the CAP). The main changes agreed upon are:

- The remaining 'coupled' (i.e. linked to production volume) farm payments have, with very few exceptions,[1] been removed. The overall support farmers receive after decoupling is not to fall below 75% of what was received previously;
- Set-aside requirements have been abolished;
- The milk quota will be increased by 1% p.a. with the objective of abolishing ceilings by 2015.[2] This 'soft landing' approach for the dairy sector will be reviewed in 2010;
- Market intervention instruments that provide support for hard-hit sectors have been reviewed. Intervention buying has been abolished for pig meat and set at zero for barley and sorghum. For cereals and butter/skimmed milk the method of intervention will vary to the respective quantities. Tobacco and cotton farmers will receive financial transfers to diversify and restructure the region continuing the 2004 started reform process;
- Member states have the opportunity to 'top slice' up to 10% of the Community funding to support hard-hit sectors, such as livestock, dairy farming, and the grain sector (so called "Article 68 support");
- The process of shifting funds away from direct farm support to rural development has been accelerated. This policy approach, known as

[1] Namely for suckler cows and goat and sheep premia. Transition periods for some products (such as potato starch, olive oil, beef, and rice) will end between January 2010 and July 2012.

[2] For Italy alone the 5% increase will take effect in 2009.

'modulation', is also needed to comply with WTO rules on farm subsidies. It had been agreed to increase compulsory EU modulation from the current 5% to 10% by 2012, which will affect mainly large EU farmers;

- The scope of modulated funds has been extended by climate change, renewable energies, and management of water.

The Council further agreed to review and discuss the current reform process in light of the 2013 reform in due time. This shall also include the policy of direct payments and the level of direct payments between member states.

Implications for developing countries

The CAP Health Check has not altered the EU's agricultural trade policy. Although import tariffs have been lowered over the past decade, sensitive agricultural products, such as sugar, rice, beef, dairy products, and most fruits and vegetables, are still massively protected. However, not all developing countries face high import barriers when exporting agricultural products. A growing group of countries (African, Caribbean and Pacific countries, the world's least developed countries, and, for some products, also some Latin American countries)[3] benefits from much lower or zero tariffs. In other words: the distortions of the CAP have created a complicated set of winners and losers. The winners are (less competitive) developing country producers which enjoy preferential access in a protected, high-price market. Moreover, net food-importers, which pay less for their imports than they would had the CAP not distorted world market prices, are the winners of the CAP system. The losers are (competitive) developing country producers which a) have hardly been able to access the protected EU market and b) have to suffer artificially low world market prices for selected products as a result of production surpluses induced by the subsidising system of the CAP.

The ongoing reform process has started changing this pattern of winners and losers. The decoupling of support and production has resulted in lower prices which have reduced the attractiveness of the EU market for preference beneficiary countries while at the same time increasing the international competiveness of EU agricultural products. Furthermore, the decoupling process has reduced the EU's agricultural output. The fall in subsidised EU exports is good news for developing country exporters which benefit from increased world market prices. It is, however, bad news for net food-importers which have to pay more.

The process continues as a result of the Health Check but it is difficult to predict the exact development consequences. These will depend on whether the agreed policy changes will result in changed prices and lead farmers to alter their production patterns or their total output levels. In the light of the current record world food prices and the (unpredictable) implications of the financial crisis, changed prices and production patterns become even more difficult to predict. Still, it appears that the Health Check will not significantly alter the current EU agricultural policy. A more influential factor for developing countries might be a successful compromise of the WTO Doha Round if this were to result in reduced levels of overall subsidies and external protection.

[3] Most ACP countries enjoy duty and quota free access to the EU market under the Economic Partnership Agreement (EPA) or the 'Everything But Arms' initiative (for LDCs only). Some Latin American and Eastern European countries benefit under the expanded Generalised System of Preferences (GSP+). Moreover, the EU grants preference to developing countries it has entered into a free trade agreement with, such as South Africa, Mexico, Chile and the Mediterranean countries.

References

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