



## EDA Trade and Economics Committee

The future of the European Common Agricultural Policy (CAP)

Koert Verkerk, Chair of EDA's CAP Task Force

Brussels, Belgium

8 March 2023 – 09:00 – 13:00

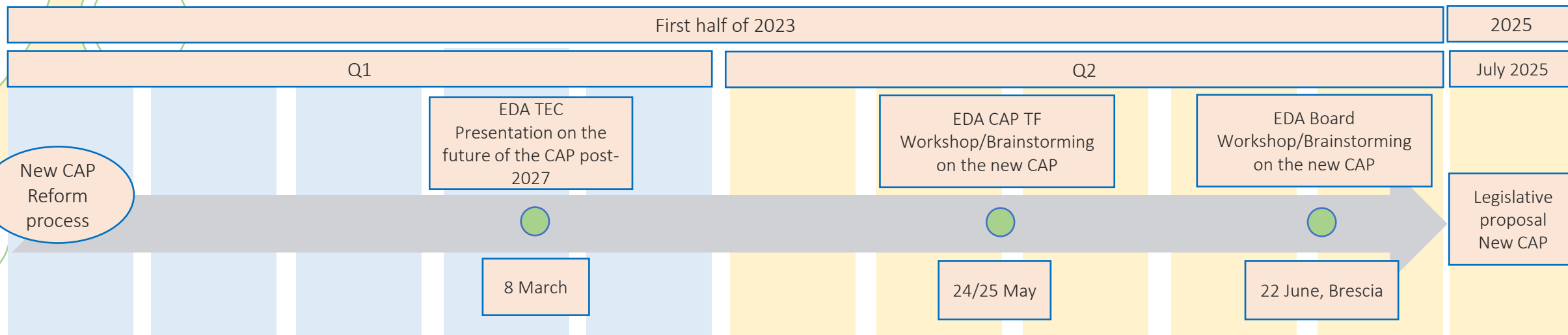


# The future of the European Common Agricultural Policy (CAP)

## General introduction – Alignment of EDA members on the new CAP reform process during the first half of 2023

- The European Commission announced they would start discussions on the future of the CAP post-2027 after the summer of 2023,
- EDA Board will meet with European Commission and European Parliament delegates in June 2023,
- In order to ‘kick-start’ our own discussions, we will have a first round of thinking on a: *CAP fit4future according to the EDA*,
- CAP task force will further formulate a general position during the course of 2023.

## CAP post-2027 reform: EDA’s tasks timeline



# The future of the European Common Agricultural Policy (CAP)

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### 1) Historic Structure and Development of the CAP

- CAP Structure
- First Pillar today
- EU dairy sector development in the CAP

### 2) The Common Markets Organization (CMO) Regulation and its future

- Public Intervention
- Definitions, designations, and sales descriptions for certain sectors and products
- Contractual relations in the milk sector
- Negotiations in the milk and dairy sector
- Interbranch organizations and extension of rules
- Monitoring Agricultural Market disruptions & management plans
- Supply management

### 3) National Strategic Plans and Greening initiatives

- New Pillar?

### 4) New CAP Structure brainstorming

- EDA's Priorities

# The future of the European Common Agricultural Policy (CAP)

## Article 39 of the TFUE

### 1. The objectives of the common agricultural policy shall be

- a) **to increase agricultural productivity** by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular, labor;
- b) **thus to ensure a fair standard of living for the agricultural community**, in particular by increasing the individual earnings of persons engaged in agriculture;
- c) **to stabilize markets;**
- d) **to assure the availability of supplies;**
- e) **to ensure that supplies reach consumers at reasonable prices.**

### 2. In working out the common agricultural policy and the special methods for its application, account shall be taken of:

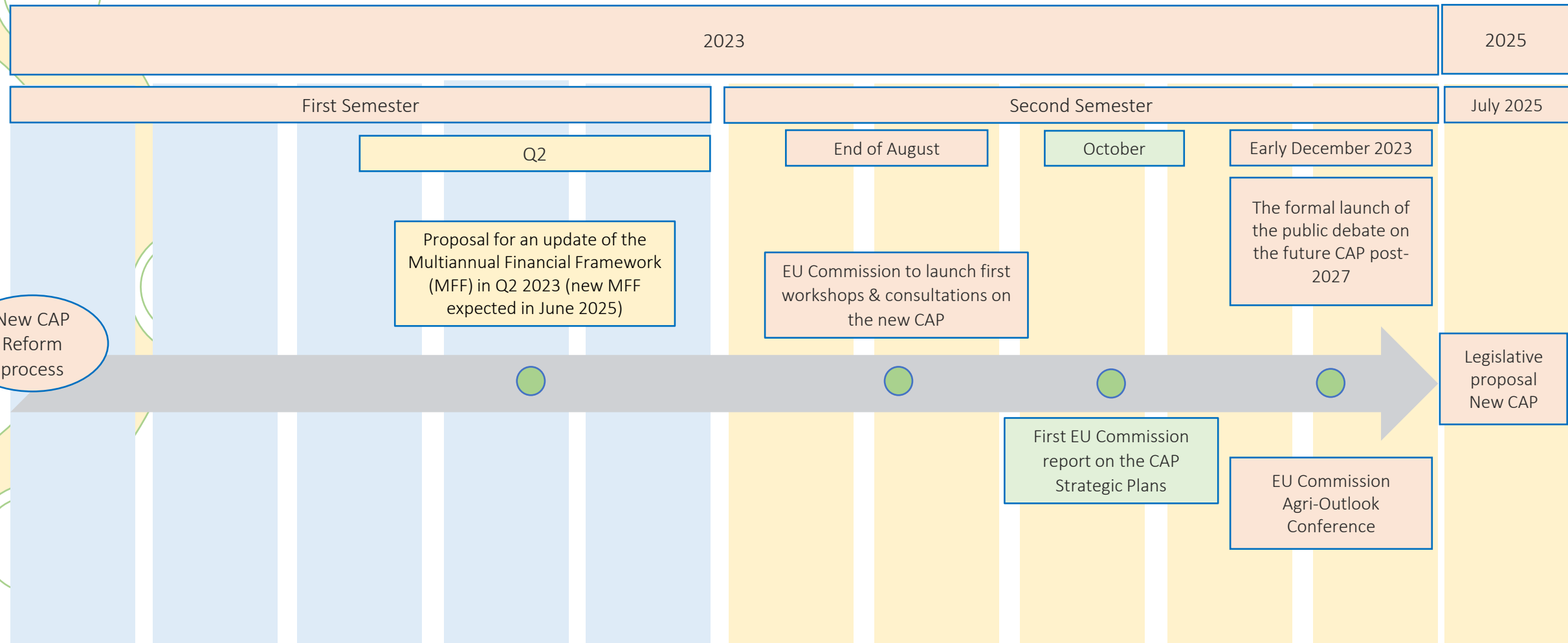
- a) *the particular nature of agricultural activity, which results from the social structure of agriculture and from structural and natural disparities between the various agricultural regions;*
- b) *the need to effect the appropriate adjustments by degrees;*
- c) *the fact that in the Member States agriculture constitutes a sector closely linked with the economy as a whole.*



1962: after 140 hours of discussions, the ministers of the six founding countries of the European Communities concluded an agreement giving legal effect to the first common agricultural policy in Europe (Source: EU Council)

# The future of the European Common Agricultural Policy (CAP)

## CAP post-2027 reform: Timeline



## EDA's brainstorming: CAP post-2027

## Historic EU dairy sector development in the CAP

### 1962-1984 – first years of the CAP

- 1984 guaranteed price; regardless of market demand → Milk surpluses in late 1970s and early 1980s.

## Historic Structure and Development of the CAP

- CAP Structure
- First Pillar today
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### 1984-2015 – Milk Quotas

- 2 April 1984 milk quotas introduced
- Introduction of super levy
- The quota regime was the main policy instrument in the European milk sector. And succeeded in capping production.
- 2003 decision to phase out milk quotas by 2015
- From April 2009; “Soft landing” quotas were increased by 1% yearly over five years.



### Timeline of CAP Revisions



### 2012 – Milk Package

- Designed to boost the position of dairy farmers in the supply chain and to prepare the dairy sector for stronger market orientation.
- CMO Regulation: Articles 148 to 152 and 157.

### 2014-2016 – Milk Crisis & EU Commission response

- High prices in 2013. High supply from mid-2014 and Russian agriculture products ban. Combination led to significant price fall
- September 2014, EC used all policy instruments available, including public intervention (for butter and SMP) and private storage without disruption to respond to the crisis.

### The European Common Agricultural Policy (CAP)

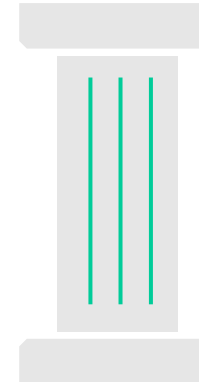
- It aims to:
  1. Provide affordable, safe, and high-quality food for EU citizens
  2. Ensure a fair standard of living for farmers
  3. Preserve natural resources and respect the environment
  4. It is a dynamic policy that, through successive reforms, has adapted to new challenges faced by European agriculture.
- Among these challenges are:
  1. Ensuring food security for all European citizens
  2. Addressing global market fluctuations and price volatility
  3. Maintaining thriving rural areas across the EU
  4. Using natural resources more sustainably
  5. Contributing to climate change mitigation
  6. About one-third (336.4 Billion Euros) of the EU budget (1074.3 Billion Euros) is dedicated to supporting farmers and rural areas through the CAP – which equals about 33 cents per EU citizen daily.

### Historic Structure and Development of the CAP

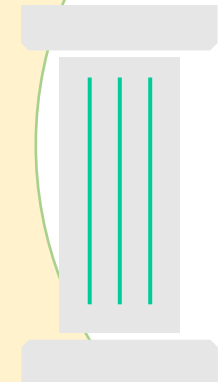
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## Common Agricultural Policy (CAP)

### Pillar I



### Pillar II



## EDA's brainstorming: CAP post-2027

### Pillar I



#### Structure of the current CAP

- The CAP is divided into two pillars and has three main areas of action:
  - Direct support (first pillar)
  - Market measures (first pillar)
  - Rural development (second pillar) – no main topic for EDA

## Historic Structure and Development of the CAP

- CAP Structure
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#### Direct support

- Direct support consists of payments granted directly to farmers, providing them with a safety net - sufficient funds to run their businesses.
- Direct support ensures that:
  - Farmers receive income support in return for looking after their farmland and meeting food safety, environmental, and animal welfare standards - farmers who do not comply with the requirements receive less or no support ('enhanced conditionality')
  - Farming activities are maintained throughout the EU and adapted to the situation on the ground
  - Producers respond to market signals so that they produce the goods demanded by consumers

#### Market measures

- A set of rules has been established within the CAP to counter-balance high price volatility in agricultural markets in the EU.
- The Common Market Organization (CMO) Regulation involves:
  - Building on the rules for the common market in goods and services, creating specific policy tools that help to improve the functioning of agricultural markets
  - Setting out the parameters for intervening in agricultural markets and providing sector-specific support
  - Including rules on the marketing of agricultural products and the functioning of producer and interbranch organizations
  - International trade and competition rules

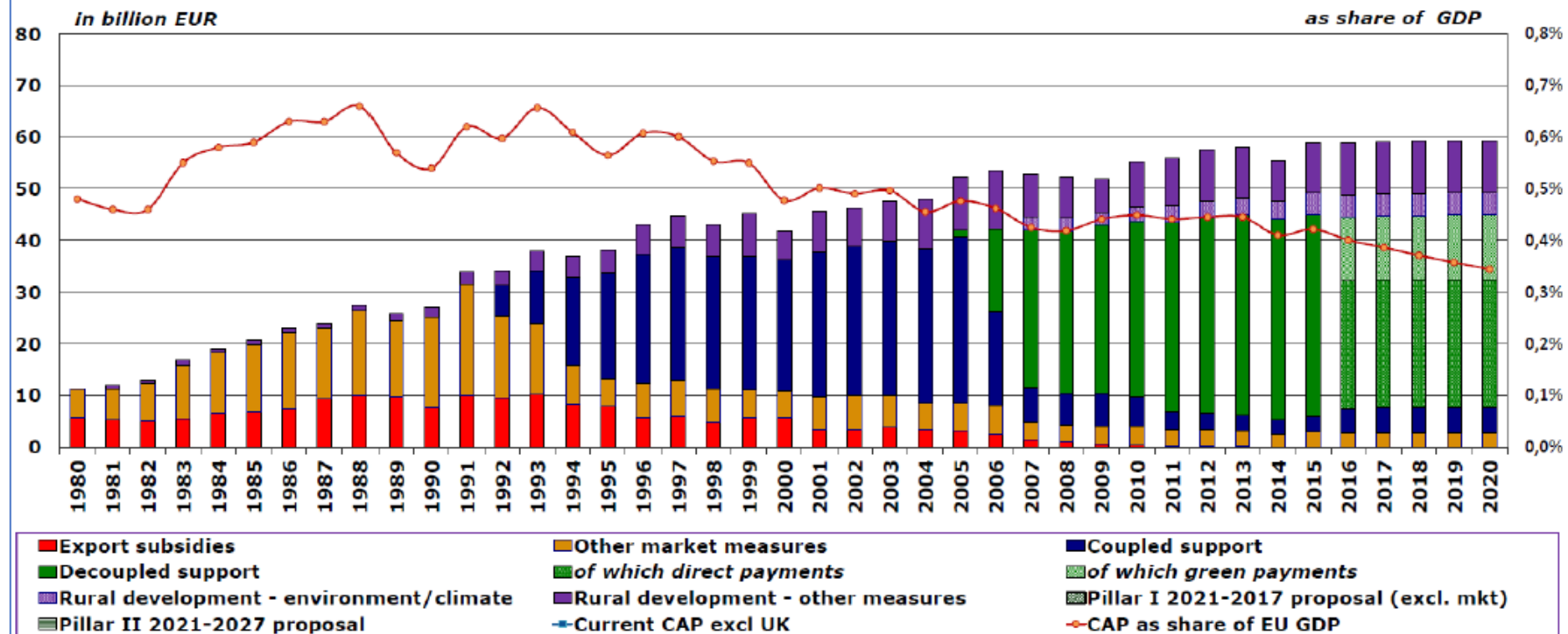
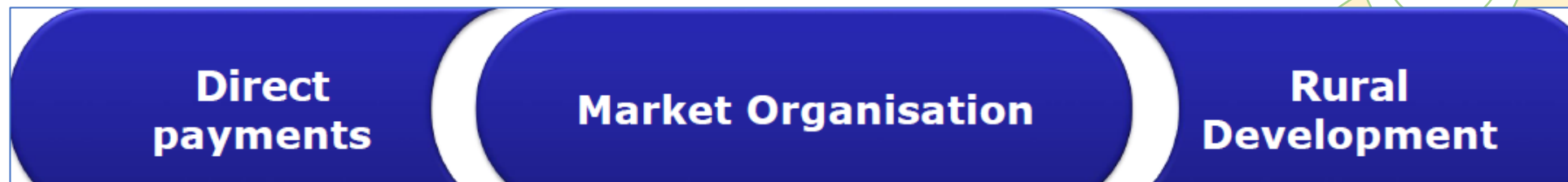


## EDA's brainstorming: CAP post-2027

## Historic Structure and Development of the CAP

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### Pillar I



Source: EC-DG AGRI.

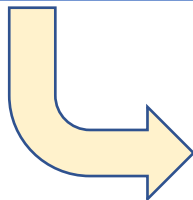
### Structure CAP's funds

- CAP's fund destination: development from 1980 to 2020.
- Since 2016: green payments have continuously increased.

EDA's brainstorming: CAP post-2027

The future of the European Common Agricultural Policy

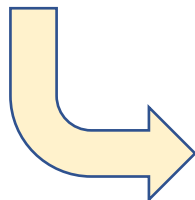
What do we expect from the CAP?



### CAP Urgencies

- Generational renewal
- Food security
- Ambitions of the EU Green Deal
- Market stability + level playing field
- Improve the competitiveness of EU Dairy
- Something else?

Current Challenges & Trends of the EU dairy sector



### Price volatility

Following the sector's opening to international markets: Successive CAP reforms have increased the sector's exposure to global markets, making EU milk prices more susceptible to international price developments.

### Climate change

The increasing hot and dry weather leads to a lack of forage and grazing in several European countries, which is an acute problem for the EU's livestock sector.

### Consumer and societal requirements

Milk farmers are asked to produce quality milk that meets high environmental standards and animal welfare requirements, while the market demands cheap products.

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## EDA's brainstorming: CAP post-2027

*CMO Regulation (EU) 2021/2117: Articles 12,15,16*



### EDA position 2022 reform

- Market orientation is desired
- A safety net is needed in case of severe market situations
- Private Storage Aid scheme (PSA) can be instrumental
- Public market management should move towards a specific usage of the instruments in unique circumstances.
- The dairy sector is characterized by long-term investments. It is in the interest of the dairy sector and European citizens to avoid severe market disruptions.



### Outcome of negotiations

- Revision of Art. 12
- Public intervention periods: an agreement that on butter and skimmed milk powder intervention period will be available from 1 February to 30 September (one more month)



### Questions for discussion

- Which future set up for public intervention?
- What is the future "safety net" we would like to see?

## The Common Markets Organization (CMO) Regulation and its future (By numerical order)

- Public Intervention

## EDA's brainstorming: CAP post-2027

*CMO Regulation (EU) 2021/2117 Articles: 75, 78) and Protection of Dairy Terms (CMO Annex VII – part III*



### EDA position 2022 reform

- The Protection of Dairy Terms are based on the joint FAO/UN Codex Alimentarius, and these international rules only exist for milk and dairy.
- Well-foundation of this protection was underlined and confirmed in 2017 by the ruling of the European Court of Justice C422/16 (“tofu-town” of 14 June 2017).
- With a growing number of companies acting on the vegan market for some years already, there has been a push for denominations such as “Milk,” “Yogurt,” “Butter,” etc., on plant-based dairy imitations.
- Such marketing of dairy can clearly mislead the EU consumers to believe that these imitations are an “equal” substitute to originals in terms of quality and nutritional value.

## The Common Markets Organization (CMO) Regulation and its future (By numerical order)

- Definitions, designations, and sales descriptions for certain sectors and products



### Outcome of negotiations

- Revision of Art. 75
- The EU Commission shall adopt delegated acts to reserve an additional optional reserved term



### Questions for discussion

- Protection of dairy terms is KEY for the EU Lactosphere

## EDA's brainstorming: CAP post-2027

*CMO Regulation (EU) 2021/2117 Article 148 / CMO Regulation (EU) 2021/2117 Article 149*



### EDA position 2022 reform

- Contractual relations in the milk sector (CMO Regulation (EU) 2021/2117 Article 148)
- The position of dairy farmers in the supply chain is protected by a competitive market for raw milk
- In the European lactosphere a 50% share of milk volumes are processed by private dairies and 50% by dairy cooperatives.
- The option for Member States to regulate delivery contracts allows for the necessary flexibility to adapt to the national environment.
- Negotiations in the milk and dairy sector (CMO Regulation (EU) 2021/2117 Article 149)
- It is widely recognized that integration into horizontal organizations can bring the market powers of the milk supply chain partners into a balance.
- In the raw milk negotiations, the volume covered by a PO was limited to 3,5% of total EU production.
- The amendment of the CMO adjusted it to a maximum of 4% of total EU production.

## The Common Markets Organization (CMO) Regulation and its future (By numerical order)

- Contractual relations in the milk sector
- Negotiations in the milk and dairy sector



### Outcome of negotiations

- Revision of Art. 148 - Agreement: a voluntary mechanism based on objective criteria
- An agreement was found in the volume of raw milk which may or must be delivered and on the timing of the deliveries: It will not be possible to lay down penalty clauses for monthly breaches
- Revision of Art. 149 - Agreement: A middle ground was found at 4%



### Questions for discussion

- Which future framework for contractual relations and negotiations would you like to see?

## EDA's brainstorming: CAP post-2027

*CMO Regulation (EU) 2021/2117 Articles 157, 158 and Extension of rules (CMO Article 164*



### EDA position 2022 reform

- The position of dairy farmers in the supply chain is protected by a competitive market for raw milk:
  - The set-up of the European dairy industry
  - The possibility of creating Producer Organizations since the so-called Dairy package in 2012
  - This option is today widely used in the European lactosphere.
- Regarding the possibility that the price for agricultural products in contractual relations must cover the 'production costs':
  - The notion of "production costs" to build minimum prices for EU agricultural raw materials would endanger the competitiveness of the entire supply chain,
  - Besides being an extremely complex exercise, it could also create distortions of competition across farmers as they have different production costs.
- An extension of standard value-sharing clauses and standard compensation clauses affecting contractual relations within sectors, therefore, would not be in the interest of the European dairy sector.

## The Common Markets Organization (CMO) Regulation and its future (By numerical order)

- Interbranch organizations and extension of rules



### Outcome of negotiations

- Revision of Art. 158 - Agreement on the EP Amendment by including in the new article a reference to the stages of the supply chain mentioned in Article 157 and changing the word "ensure" by "strive" at the beginning of the modified text
- Revision of Art. 164 - Agreement in the extension of the rules for POs or IBOs in cases where an organization is considered representative of the sector in an economic area. In the case of Dairy: if the organization covers at least 2/3 of the volume of production or trade volume of a certain economic area of a Member State, the rules would be extended.



### Questions for discussion

- Is our position still relevant?
- Do we want to see changes?

## EDA's brainstorming: CAP post-2027

CMO Regulation (EU) 2021/2117 Articles 218b, 219, 219a, 219b



### EDA position 2022 reform

- EDA supports a resilient dairy supply chain that successfully delivers excellent dairy quality for regional, national, and international markets in a competitive and market-oriented environment.
  - The introduction of public supply management is a contradiction to this objective and the market orientation aims of successive CAP reforms since 2003.
  - The existing regulatory framework with its market management tools has proven its efficiency and provides adequate opportunities for cooperation between producers for the marketing of their produce
- In the last CAP reform, it was proposed in cases where the market situation remains imbalanced that, the EU Commission shall be empowered to adopt delegated acts to impose an obligatory volume reduction scheme. The European Parliament proposed an “early warning system for market disturbance” and an “alert threshold” connected to a volume reduction scheme.
- EDA recommended that the EU Milk Market Observatories promote an objective and not-politically-biased dialogue among stakeholders on the market situation, in full compliance with competition law.

## The Common Markets Organization (CMO) Regulation and its future (By numerical order)

- Supply management



### Outcome of negotiations

- Revision of Art. 218b – Market Observatories - Agreement on not having early warning mechanisms and neither a separate structure for an agricultural market observatory
- Revision of Art. 219 – Market Disturbance - Agreement on a temporary and voluntary production reduction scheme



### Questions for discussion

- Is our position still relevant?
- Do we want to see changes?



## EDA's brainstorming: CAP post-2027

*CMO Regulation (EU) 2021/2117 Article 222*



### EDA position 2022 reform

- The current Article 222 of the CMO Regulation refers to agreements and decisions during periods of severe imbalance in markets.
  - It transfers the possibility of derogating from the general competition rules to the EU Commission.
- Before this article can be invoked, the EU Commission must already have taken exceptional measures to stabilize the relevant market, including the use of public intervention or aids for private storage.
- The optional measures can include:
  - “Temporary planning of production taking into account the specific nature of the production cycle”.
- Agreements can be valid for periods of up to six months, but with the possibility of renewal for a further six months.
- EDA considers that the mechanism is working correctly and should be kept as it is. A further management plan by the Commission is therefore not necessary.

## The Common Markets Organization (CMO) Regulation and its future (By numerical order)

- Monitoring Agricultural Market disruptions & management plans



### Outcome of negotiations

- EU institutions found an agreement under Article 225 in increasing the reporting obligation period of the Commission to the EU Parliament on:
  - The general state of market observatories set up according to Article 222 every seven years
  - Every three years on the use of the crisis measures mechanisms in particular



### Questions for discussion

- Is our position still relevant?
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# EDA's brainstorming: CAP post-2027

## The reformed CAP aims to

- Provide more targeted support to smaller farms
- Enhance the contribution of agriculture to EU environmental and climate goals
- Allow greater flexibility for member states in adapting measures to local conditions

## The main aspects of the policy are:

- A new green architecture based on environmental conditions to be met by farmers and additional voluntary measures
- More targeted direct payments and rural development interventions, both subject to strategic planning
- A performance-based approach whereby member states have to report their achievements each year

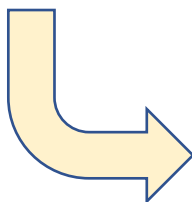
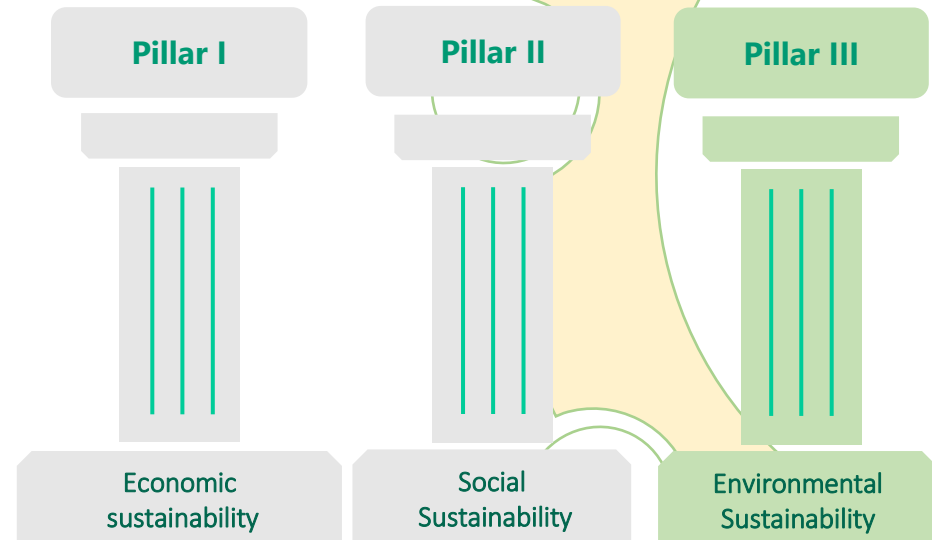
## National strategic plans and their greening initiatives

- Now that these are established, the European Commission will keep them
- It is not a main topic for EDA in the Revision of the CAP
- Due to its importance, can the new CAP post-2027 be restructured into three pillars
  - First Pillar – Direct Payments: CMO focused on production support (economic sustainability/food security)
  - Second Pillar – Rural Development/social sustainability
  - Third Pillar – Greening and sustainable initiatives - on environmental sustainability with all the support measures

National Strategic Plans and Greening initiatives

- New Pillar?

# Common Agricultural Policy (CAP)



Discussion



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## EDA's brainstorming: CAP post-2027

### CAP post-2027

- Priority brainstorming
  - Do we agree on the presented fields/CAP tools as priorities that should guide the next CAP post-2027?
- What is our vision of the CAP post-2027?
  - CMO focused on production support (economic sustainability/food security);
  - Second pillar rural development/social sustainability;
  - Third pillar on environmental sustainability with all the support measures here?
- Are there any additional points/fields of action to prioritize?
  - Is something not part of the last CAP reform that should be considered for the CAP post-2027 reform?
- Taking into consideration the current trends in agriculture (focused on climate change and sustainability, for instance):
  - Is there a need to reconsider EDA's positions in some areas?

## New CAP Structure brainstorming

- EDA's Priorities

### The way forward of the EDA's CAP post-2027 workshop - Next Steps

- The outcome of the workshop
  - EDA's paper on the ten most outstanding points and EDA's position for the new CAP Post-2027
  - To be delivered to the European Commission by December 2023?
  - To be delivered to the new European Parliament after the 2024 elections?

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# CAP Task Force

Thank you for your time and consideration

