The EU’s common agricultural policy

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The year 2014 has been a momentous year for the common agricultural policy (CAP) and for agricultural trade relations with our partner countries in the African, Caribbean and Pacific (ACP) group of states. We have seen the beginning of the implementation of the CAP reform and successfully concluded economic partnership agreements (EPAs) with many ACP countries. Agriculture is central to the EPAs: 60% of the population of sub-Saharan Africa rely on farming for their livelihoods and it is the key sector for economic growth in the least developed regions. The EPAs have been crafted to boost regional trade, open EU markets and allow developing countries to protect sensitive sectors from the effects of liberalisation, especially in agriculture. We have also agreed to far-reaching policy dialogue and cooperation with our partners, including the commitment to forego any potential use of export refunds on products exported to African countries participating in the comprehensive EPAs. These EPAs are an example of how policy coherence with development objectives — a key topic of this publication — is given practical effect.

The year 2015 promises to be another crucial year for agricultural and development policy. The CAP and agricultural trade policy will continue to align closely with development policy and ensure that market access to the EU can be a motor for agricultural investment and growth in developing countries. In addition, the global community intends to finalise the new sustainable development goals, and their means of implementation, that will guide policy decisions after 2015. We can expect agriculture, food and nutrition security to be at the heart of this exercise. The year 2015 is the European Year for Development and also the year in which the EU will feature at the Milan Expo on the theme of ‘Feeding the planet, energy for life’.

There is a tremendous need and opportunity for agricultural development in Africa and a recognition by the EU and the African Union that agriculture must be at the core of Africa’s economic transformation. This momentum needs to be led by investment from the private sector, including from EU firms and particularly small and medium-sized enterprises.

I look forward to this challenging period and I look forward to engaging with the international community to highlight the EU success stories in agricultural and rural development that could be adapted to the realities of developing countries.

Phil Hogan
Commissioner for Agriculture and Rural Development
In accordance with the concept of policy coherence for development (PCD), the EU is committed to taking into account the impact of all EU policies — whether domestic or external — on developing countries and to strive to minimise inconsistencies and, wherever possible, maximise synergies.

The EU’s commitment to PCD is set out in Article 208 of the Treaty on the Functioning of the European Union — making the EU the only political entity to have this commitment enshrined in its fundamental law.

The requirement to assess the possible impacts of EU initiatives on developing countries from a PCD perspective has been included in the Commission’s impact assessment guidelines since 2009.

The European Commission publishes biennial reports assessing its policies from a PCD perspective. The last report was released in October 2013. The next report is due by the end of 2015.

Global food security is one of five PCD priorities, so it is an important area for the common agricultural policy (CAP).

Previous CAP reforms have significantly improved policy coherence, and the 2013 reform consolidated this direction, for example by refraining from the use of export subsidies.
The commitment to PCD was embedded in the 2005 European consensus on development (1). Since then, PCD has become a key pillar of the EU’s efforts to maximise the impact of its development assistance, leveraging benefits from, and creating synergies with, non-development policies, where possible. As part of this commitment, the European Commission was tasked to monitor PCD progress in the EU and all its Member States and to produce a report every 2 years. The latest of these reports was published in 2013 (2).

Another tool that the Commission uses to promote PCD is the preparation of impact assessments (3) during the design phase of EU policy initiatives, which evaluate, among other things, the expected impact of a proposal on developing countries.

Implementation of the EU’s PCD approach requires active participation from a number of institutions and Member States, and is strengthened by feedback from external actors and stakeholders, as shown in Figure 1.

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(2) https://ec.europa.eu/europeaid/node/45425
(3) Before the European Commission proposes a new policy or initiative, it evaluates the potential economic, social and environmental consequences through an impact assessment. Where possible, this seeks to quantify what the expected impacts will be in order to inform a final policy decision. In the last revision of the Commission’s impact assessment guidelines in 2009, a new section was included on assessing impacts on developing countries.
Figure 1

PCD institutional actors in the EU

- **European Commission**
  - DG Development and Cooperation — EuropeAid leading
  - Other Directorates-General (incl. DG Agriculture and Rural Development)
  - European External Action Service (EEAS) and delegations

- **Member States**
  - PCD contact point
  - EU PCD network
  - National ministries

- **European Parliament**
  - Committee on Development (DEVE) including standing rapporteur on PCD

- **European Council**
  - Working Party on Development Cooperation (CODEV)
  - General Affairs and External Relations Council (GAERC)

- **OECD**

- **Non-governmental organisation**

- **Think tanks and academia**

- **Civil society organisations**
Food security is one of the world’s major development challenges given increasing global food demand and the considerable uncertainty of supply as a result of unpredictable economic, climate, geo-political and animal health developments, among others.

Since 2009 the EU’s PCD efforts have been focusing on five priority areas to promote a more result-oriented approach. These are: trade and finance, climate change, global food security, migration and security. These areas are strongly interlinked, posing a challenge both for the implementation and monitoring of PCD.
The EU is one of the world’s most open markets to imports of farm products from non-member countries and it is the top importer of agri-food products from developing countries (using the World Bank definition) and from the least developed countries (LDCs) (using the UN classification covering 48 countries). On average, over the years 2011 to 2013, 2.8% of EU imports came from LDCs (EUR 2.8 billion per year). The value of this trade is four times as high as the corresponding value of the agricultural imports of Canada, the United States, Australia, New Zealand and Japan taken together, for whom imports from LDCs account on average for 0.4% of their total imports\(^{(4)}\).

With the global population expected to increase to over 9 billion by 2050, substantial increases in agricultural production and productivity are required. It is important that the efficient and productive agricultural sector in the EU is maintained, to contribute to securing supplies in the EU and to minimising excessive price volatility and price shocks. The agricultural sector in the EU also has an important role to play in maintaining an open trading system and in sharing innovations, good farming techniques and sustainable practices with other regions.

The CAP plays an important role in EU agriculture, and its coherence with food security objectives, and PCD more widely, is essential. It is also an example of where critical progress has been made on PCD, via the reforms of the last 20 years.

The CAP’s contributions to food security mean that pursuing PCD in the CAP entails ensuring that food security is assured for citizens in the EU, and that the approach adopted actively seeks to benefit the global community — particularly developing countries — as much as possible and avoid doing harm.
In the past, certain instruments of the CAP were criticised from a PCD perspective, in particular market support, intervention and export subsidies. Criticisms were also levelled at the lack of environmental sustainability and the biofuels policy, particularly as regards perceived links to indirect land-use change.

The criticisms on market support and intervention have been taken into account in successive reforms, which have reflected the unfolding needs and challenges of the times and steered its orientation towards more coherent and efficient policies and away from trade-distorting principles and instruments that could place strains on developing countries’ agricultural development and growth.

The 2013 reform continued in the spirit of market orientation and maintained a focus on development coherence. The reform process itself was inclusive and transparent, with public consultation and ongoing engagement with stakeholders, to ensure all views were heard and taken into account.

As a result of this process, many elements have been introduced into the CAP that make it more compatible and coherent with the Union’s development objectives.
The most dramatic change to the CAP over the past decade has been the movement away from ‘coupled’ support (support tied directly to the production of particular products). Currently, most direct support is non-trade distorting, i.e. decoupled from production. The 2013 reform has consolidated this approach.
For the last two decades the systematic use of export refunds (a form of subsidy designed to bridge the gap between higher EU prices and lower world prices) has gradually decreased. Since July 2013, no agricultural sector has benefited from these. Since January 2014, export refunds have only been able to be used as an exceptional measure in periods of market crisis. In January 2014\(^{(5)}\) the Commission went a step further, proposing to end the use of export refunds for all products exported to African countries entering into a full economic partnership agreement (EPA)\(^{(6)}\) with the EU.

\(^{(5)}\) http://ec.europa.eu/agriculture/newsroom/157_en.htm
\(^{(6)}\) Economic partnership agreement (EPA): a free-trade and development agreement between the EU and a regional group (the groups are self-selected) of ACP partner countries, giving preferential trade access (normally duty-free, quota-free to the EU) and development cooperation that is tailored by region. EPAs go beyond conventional free-trade agreements, focusing on ACP development, taking account of their socioeconomic circumstances and include cooperation and assistance to help ACP countries implement the agreements (http://ec.europa.eu/trade/policy/countries-and-regions/development/economic-partnerships).
EU consumers expect the produce they purchase to meet high standards, as much in environmental credentials as product quality. It would therefore be counter-productive for the CAP to support environmentally unsound practices. Using the instruments of the CAP, the EU ensures that environmental conditions and incentives are in place to promote sustainability.

The new CAP strengthens instruments to address environmental concerns, including the addition of environmental criteria to support under a ‘green direct payment’, covering 30 % of the new direct payments. In addition, at least 30 % of rural development financing is allocated for measures and projects that are beneficial to the environment and address climate change. This means that a substantial share of the CAP’s budget both for direct payments and rural development will contribute to the protection and preservation of the environment.

Efforts to improve the environmental footprint of the EU agricultural sector have been underway for years, and thanks to more sustainable practices, such as enhanced efficiency in fertiliser use, greenhouse gas emissions from agriculture in the EU decreased by 24 % in the period 1990–2012 (7).

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A soft landing for ACP sugar producers on the termination of EU sugar production quotas

The 2013 CAP reform stipulated that sugar quotas would expire in 2017, completing the reform of the sugar sector initiated in 2005. Recognising the likely needs of 18 former ‘sugar protocol’ countries in the ACP region (8) to adapt to the new market conditions created by the reform and the end of the preferential access to its sugar market, the EU committed to accompany the adaptation process through development assistance, amounting to EUR 1.25 billion over the period 2006–13. EU assistance was aimed at strengthening the competitiveness of the sugar sector, where this was a sustainable process, at supporting the development of alternative activities (diversification) and at mitigating broader impacts. In addition, the EU ensured duty-free and quota-free access for all goods, including sugar, under the EPAs.

The deadline for this adaptation of 1 October 2015 was clearly stipulated in the regulation, allowing sufficient time for reform. Furthermore, in the recent CAP reform the deadline for the quota expiry was extended by another 2 years to 2017, giving even more time to adapt. Many of the affected countries, such as Mauritius, Jamaica and Swaziland, used this money effectively to restructure their sugar industries and diversify local sugar-dependent economies, as a result of which they should now be competitive in global markets when the EU’s internal production quotas are eventually withdrawn.

Sugar imports from ACP countries and the least developed countries (LDCs) have gone up from an average of 1.5 million tonnes before 2006 to a level of 2.2 million tonnes in 2013/14. Many ACP countries have thus benefited from the EU financial support and more importantly have created conditions that have strengthened their sugar sectors.

(8) http://ec.europa.eu/europeaid/node/13928_en?language=en
The EU is committed to helping developing countries integrate into the world’s trading system and share in the benefits of the global economy. International trade is a key element on the path to sustained economic growth and development.

As a result, the EU has given long-standing preferential market access for products from developing countries, which have been substantially deepened over time. Under the ‘Everything but arms’ initiative, LDCs are given duty- and quota-free access to the EU market. Under EPAs, ACP countries (except South Africa) will enjoy full duty- and quota-free access for their products to the EU market.

The EPAs leave ACP countries sufficient policy space to enhance their agricultural production and to strive towards the eradication of poverty. To help with this, the EU applies asymmetry to market access, allowing up to 20 % of ACP products to be excluded from liberalisation — meaning that tariffs stay in place after the EPA is implemented. ACP partners themselves decide what falls into this 20 %. Most of the products excluded are agricultural, including complete agri-food sub-sectors that the partner states deem to be strategic.
Minimising the impacts of EU biofuels policy on developing countries

Biofuels and the EU renewable energy policy have been on the PCD agenda for the last few years, resulting in high awareness levels and extensive monitoring to avoid negative side-effects, in particular on food prices. In principle, biofuel demand in the EU could provide opportunities for an increase in exports from developing countries, with benefits for economic development.

The majority of biofuels in the EU are produced from EU domestic feedstock\(^9\). The additional supply that comes from imports is dominated by developed countries with well-developed agricultural and domestic biofuel sectors, and there is almost no trade with countries that have high risks to food security or weak land-use rights\(^{10}\).

However, it is important to recognise that those developing countries which do produce biofuels both for their domestic consumption and to export to the EU market, such as Malaysia and Indonesia, consider this sector as an important contributor to their economic and rural development.

\(^9\) EuroObserver 2013 Report: in 2012 around 30% of the EU’s biodiesel and around 15% of the EU’s bioethanol were imported (based on assumptions); biodiesel accounted for 79% of total energy content consumption and there was a turnover of around EUR 14.5 billion, with 115 000 jobs in the biofuels industry, including the supply side in agriculture.

\(^{10}\) In 2012, the Commission undertook a thematic study assessing the impact of biofuels production on developing countries from the point of view of PCD. The findings of this study indicated that, although there has been a wave of land acquisitions in developing countries, these have not materialised into projects on biofuel production or exports to the EU. Therefore, in reality the negative effect of land use for biofuels seems to be much less significant than initially thought.
Despite this, the EU is aware that increased demand for conventional (food-/feed-based) biofuels can also increase the competition for resources, including land, water, labour and other inputs, particularly if the sector is badly managed. To address this issue the EU biofuels sustainability regime, established in the renewable energy directive, applies to imported biofuels as well as those domestically produced, and includes fully harmonised sustainability criteria for biofuels and bioliquids, strong monitoring and reporting requirements regarding, inter alia, food prices, land use rights and broader development issues, as well as supporting voluntary certification schemes in developing countries. The latest report on this was published in 2013\(^{(11)}\).

In order to avoid negative impacts on land use and to foster the transition towards advanced technologies, the Commission has proposed to discontinue public support to food-based biofuels after 2020 and to focus the policy development on improving the efficiency of the transport system, further development and deployment of electric vehicles, second and third generation biofuels and other alternative, sustainable fuels as part of a more holistic and integrated approach

\(^{(11)}\)https://ec.europa.eu/europeaid/node/45425
Conclusion and way forward

The 2013 reform aligned the previous approach to the CAP with the long-term need to contribute to the global food supply, for example by abolishing production-limiting policy instruments in order to fit with real market demand and by consolidating the long-term trend towards direct income support for farmers, as opposed to more trade-distorting forms of support, by increasing funding for research and development. With this reform the monitoring and evaluation of the CAP has been strengthened.

A close monitoring of agricultural trade flows and related trade issues such as the ongoing free trade agreements, European partnership agreements with ACP countries and the renewable energy directive reporting can also inform future debates in the context of PCD and global food security.

However, acting in isolation cannot bring the desired results. An effective PCD agenda for food security requires interventions at different levels, including action by developed countries and emerging economies, as well as action at global and national levels in developing countries. The post-2015 development agenda, which will replace the millennium development goals, may be used as a platform to further pursue the PCD agenda and as a means to guide consistent national, regional and global action.
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