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EU Agricultural Domestic Support: Overview and Comparison with the United States

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SUMMARY

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EU Agricultural Domestic Support: Overview and Comparison with the United States

The European Union (EU) is one of the United States' chief agricultural trading partners and a major competitor in world markets. Historically, the United States and the EU have provided significant government support for their agricultural sectors. Significant structural differences in their respective farm sectors have helped to shape differences in their farm policy. The United States has double the farmland base than that of the EU (over 1 billion acres versus 418 million acres, respectively). The EU has five times as many farms, at 10.6 million with an average size of 39 acres, compared with 2 million U.S. farms averaging 485 acres. As a result, EU outlays per acre appear much larger than in the United States, whereas U.S. outlays per farm appear much larger. The EU's small size of farm holdings, substantially larger number of farms relative to the United States, and larger share of rural population (27% versus 18%) have all played a role in forming EU farm policy as compared with the United States.

In the United States, federal farm policy traditionally has focused on price and/or income support programs concentrated on row crops, including grains, oilseeds, and cotton, as well as sugar and dairy. In contrast, the EU—under its Common Agricultural Policy (CAP)—provides extensive support to a broader range of farm and food products, including livestock products and fresh and processed fruits and vegetables. The EU tends to have a stronger rural development emphasis and allows frequent exemptions for identifiably small farming units from certain cross compliance restrictions and payment limitations.

Since the mid-1990s, both regions have reoriented their domestic agricultural policy toward less-market-distorting policies in response to internal budget pressures and international trade commitments. By 2013, the EU had grown to 28 European countries with 508 million people—including the economically poorer countries of Eastern Europe where agriculture remains an important part of the economy. EU policymakers faced pressures to reform domestic agricultural policy due to this steady growth. In January 2020, the United Kingdom—the second largest net contributor to the EU budget—withdrew from the EU, leaving 27 countries (EU-27) with roughly 450 million people and somewhat reduced budgetary resources.

Several policy trends have emerged in the EU and the United States, including the following:

- Traditionally, the United States uses less overall trade-distorting support (OTDS) than the EU, although the EU has made substantial reductions in the volume of OTDS. Since 2011, OTDS outlays (as notified to the World Trade Organization [WTO]) for the EU and United States have been near parity.
- In both the EU and the United States, support for less-distorting noncommodity-type programs (e.g., conservation, rural development, agroforestry, nutrition, and climate) has increased substantially.
- When measured by producer subsidy equivalent (PSE) as a share of total gross farm receipts, support has been trending lower for both the EU and the United States. As of 2019, the EU's share (19%) remained above the U.S. share (12%).
- U.S. consumers have received net benefits from agriculture-based support programs (including domestic food aid), whereas EU consumers generally have transferred more support to agricultural producers than they have received in offsetting benefits—that is, the EU's consumer subsidy estimate (CSE) is negative—although the net transfer has been declining over time as a share of gross farm receipts.

Large-scale ad hoc payments made by the United States during 2018 and 2019 in response to trade disputes, and in 2020 in response to food chain disruptions associated with the Coronavirus Disease 2019 (COVID-19) pandemic, could result in substantial increases in U.S. domestic support notifications—particularly market-distorting-type outlays—to the WTO starting in 2018. In contrast, the European Commission's proposed CAP reforms for 2021-2027 emphasize sustainable agricultural production that supports greater biodiversity while addressing environmental and climate concerns. Details on implementation, measurement, and enforcement have yet to be finalized, and the potential for effectively achieving the environmental and climate goals have yet to be demonstrated. The CAP reform proposals—if implemented—would appear likely to increase the share of CAP outlays to less-market-distorting programs (i.e., green box programs) at the expense of OTDS outlays.

Because the United States and the EU figure prominently in the development and use of global agricultural policy, information comparing their farm support programs may be of interest to Congress as the United States considers reauthorization of the domestic farm bill by 2023 and engages in international trade negotiations.

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Introduction

The United States and the European Union (EU) have large, diverse, and economically important agricultural sectors. Both political entities provide significant government support to their agricultural sectors; however, the nature and extent of their policy interventions differ markedly. In addition, each entity's agricultural policy regime has changed substantially over the years. Since the mid-1990s, both regions have reoriented their domestic agricultural policy in response to internal budget pressures and commitments to international trade rules governing the use of domestic support programs—based largely on the World Trade Organization's (WTO's) Agreement on Agriculture (AoA), which encourages greater use of less-market-distorting policies.[1]

EU policymakers have faced additional pressures to reform domestic agricultural policy, in particular due to the EU's steady growth from 6 European countries with 167 million people in 1957 to 28 European countries with 508 million people by 2013—including most of the agriculturally intensive but economically poorer countries of Eastern Europe. In January 2020, the United Kingdom (UK)—the second largest net contributor to the EU budget[2]—withdrew from the EU, leaving 27 member states with roughly 450 million people and somewhat diminished budgetary resources.[3]

The EU member states share a Common Agricultural Policy (CAP). This report focuses on the current EU-27 and the historical development of its farm policy, as well as proposed reforms for the 2021-2027 budget period.

In comparing the agricultural sectors and policy frameworks of the United States and the EU, this report first notes the importance of trade between the two entities. Second, it describes some of the major differences in agricultural and geopolitical settings that underlie and drive the policy frameworks for supporting their agricultural sectors. Third, the report provides a short recounting of the historical context that produced the current policy regimes in each entity, followed by an overview of the current (and proposed) agricultural policy structure in both the EU and the United States. The final section compares outlays under each entity's agricultural support programs based on two international data sources: annual domestic support notifications to the WTO and a set of comparative policy measures published annually by the Organisation for Economic Co-operation and Development (OECD).[4]

The EU and United States Are Important Trading Partners

The EU is one of the United States' chief trading partners and a major competitor in world markets for goods and services, including farm products (**Table 1**). As a destination, the EU-27 accounted for 16% of total U.S. merchandise export value and 7% of U.S. agricultural export value during 2015-2020. The EU-27 ranked as the fifth most important destination for U.S. agricultural products behind Canada (17%), Mexico (13%), China (13%), and Japan (8%) during

[1] The Agreement on Agriculture (AoA) was entered into force on January 1, 1995, as part of the establishment of the World Trade Organization (WTO). Its guidelines and restrictions on domestic support are described in the section "Comparing Farm Support: The EU and United States."

[2] David Blandford and Alan Matthews, "EU and US Agricultural Policies: Commonalities and Contrasts," *EuroChoices* vol. 18, no. 1 (2019) (hereinafter Blandford and Matthews, "EU and US Agricultural Policies," 2019).

[3] For information on the United Kingdom's (UK's) withdrawal from the European Union (EU), see CRS Report R46730, *Brexit: Overview, Trade, and Northern Ireland*.

[4] Both of these data sources are publicly available and described in detail later in this report.

that same period. On the other side of the trade ledger, the United States accounted for 17% of total EU-27 merchandise exports and 20% of EU-27 agricultural exports.

As a source for U.S. agricultural-product imports, the EU's 19% share ranked second, behind Mexico (20%), ahead of Canada (18%), and with China (3%) a distant fourth. In contrast, the EU imports 9% of its agricultural products from the United States.

Table 1. Average Trade Values for 2015-2020: EU-27 vs. United States

(billion U.S. dollars)

	U.S. Trade with			EU-27 Trade with		
	World	EU-27	EU Share	World	U.S.	U.S. Share
Exports						
Total Merchandise[a]	$1,306	$203	16%	$2,234	$378	17%
Subtotal: Agriculture[b]	$148	$11	7%	$196	$24	12%
Imports						
Total Merchandise[a]	$2,353	$397	17%	$1,995	$233	12%
Subtotal: Agriculture[b]	$134	$26	19%	$134	$11	9%

Source: Data assembled by CRS from *Trade Data Monitor* database, April 22, 2021.

Notes:

a. EU merchandise trade data are all commodities of all chapters of the Harmonized System (HS) code for the EU-27; the United Kingdom is excluded.

b. EU agricultural trade data are all agricultural products for chapters 1-24 of the HS code for the EU-27.

Key Sectoral Difference: The EU Has More—but Smaller—Farms

Identifying the structural differences in the respective farm sectors of the United States and the EU is a first step in understanding the differences in their agricultural policies. Perhaps the most important difference is the contrast between land area and farm numbers. The United States has more than double the farmland base (over 1 billion acres, more than half of which are pasture, versus about 418 million acres in the EU), while the EU has more than five times the number of farms (10.6 million versus 2.0 million) spread across its 27 member countries (**Table 2**). As a result of its smaller area but comparable support outlays, EU domestic support outlays per acre are nearly double the United States ($237 versus $139), whereas U.S. outlays per farm are over six times larger than in the EU ($66,385 versus $10,106).

Despite its apparent large farm population, the number of farm holdings in the EU has been declining recently. In 2005, following the 2004 accession of 10 new EU member states, the EU had an estimated 14.5 million farms.[5] By 2013, the number of EU farm holdings had declined to an estimated 10.8 million (the most recent data point) with an average size of 43 acres.[6] This contrasts with the United States, where 2.1 million farms with an average size of 485 acres per farm were in operation in 2020.[7]

[5] European Commission, *Eurostat*, downloaded on May 11, 2016, at http://ec.europa.eu/eurostat.

[6] The 10.8 million farm population of 2013 is for the EU-28. Excluding the UK reduces the total number of farms to 10.6 million for the EU-27. Data are from the EU 2013 Census of Agriculture; results from the next EU agricultural census for 2020 are not yet publicly available.

[7] CRS calculated average farm sizes based on data defined in **Table 2**.

Table 2. General Economic Indicators: EU vs. United States

Indicator	EU-27	United States
Population (million, July 2021)	**450.1**	**321.4**
Rural Share (%)	27.3%	18.4%
Population Density (capita/km^2)	**113**	**37**
GDP-PPP[a] (U.S. $B, 2019)	**$19,886**	**$20,525**
Agriculture Share of GDP-PPP (%, 2017)	1.6%	0.9%
GDP-PPP per capita (2019 $)	**$44,436**	**$62,530**
Total Land Area (million acres, 2020)	**987.8**	**2,260.4**
Agricultural Land, million acres (%)	**417.9 (100%)**	**1,002.8 (100%)**
Pasture, million acres (%)	135.4 (32%)	606.3 (61%)
Seasonal Crops, million acres (%)	253.1 (61%)	389.8 (39%)
Tree/Permanent Crops, million acres (%)	29.4 (7%)	6.7 (1%)
Labor Force (million, 2020)	**204.0**	**165.5**
Agricultural Labor Force (million, %)	21.2 (10.4%)[b]	6.0 (3.6%)[c]
Agricultural Share of Employment (%, 2018)	4.0%	1.6%
Number of Farms[d] (million)	**10.6** (2013)	**2.0** (2020)
Average Farm Size (acres)	**39.3** (2013)	**485.1** (2020)
Major Livestock Population (million head, 2020)	**305.5 (100%)**	**170.7 (100%)**
Cattle (million head)	76.2 (25%)	88.5 (52%)
Dairy Cattle (million head)	20.5 (7%)	9.2 (5%)
Hogs (million head)	146.2 (48%)	67.7 (40%)
Sheep (million head)	62.5 (20%)	5.2 (3%)
Poultry Production (million tons, 2020)	**12.4**	**17.5**
OTDS Outlays (2020 $B, 2015-2017 avg.)[e]	**$16.3**	**$17.7**
Green Box Outlays (2020 $B, 2015-2017 avg.)[e]	**$73.5**	**$127.5**
OTDS + Green Box Outlays (2020 $B, 2015-2017 avg.)[e]	**$89.8**	**$145.2**
Per acre (U.S. $)	$215	$145
Per farm (all farms included) (U.S. $)	$8,451	$70,255

Source: Assembled by CRS from various sources, including Organisation for Economic Co-operation and Development (OECD), *Agricultural Policy Monitoring and Evaluation 2020;* Central Intelligence Agency, *CIA Fact Book*; World Bank, *World Development Indicators*; United Nations, *FAOSTATS*; European Commission, *Eurostat*; and U.S. Department of Agriculture (USDA), *Farm and Land in Farms: 2020 Summary*, February 2021.

a. GDP-PPP = Gross Domestic Product in Purchasing Power Parity, as calculated by the World Bank.

b. EU 2013 Census of Agriculture; EU-27 data for agricultural labor force and number of farms. The results from the next EU agricultural census for 2020 are not yet publicly available.

c. USDA 2017 Agricultural Census; includes full- and part-time producers, hired managers, and hired labor.

d. The U.S. Agricultural Census defines a U.S. farm as any place from which $1,000 or more of agricultural products were, or normally would be, produced and sold during the census year. According to *Eurostat*, a European agricultural holding is a single unit, both technically and economically, that has single management and produces agricultural products. The holding also may provide other supplementary (nonagricultural) products and services.

e. Overall Trade-Distorting Domestic Support (OTDS) and green box outlays are described later under WTO notifications. EU data are for the EU-27 plus United Kingdom. EU euros per dollar are converted to U.S. dollars using the ERS, USDA, exchange rate; data are then converted to 2020 dollars before averaging.

The technological scale of agricultural production varies dramatically across the EU's 27 member states. Many of the EU's Eastern European member states have been slow to adopt new technology, in large part due to the extremely small size of their agricultural holdings. For example, Romania had an estimated 3.6 million farm holdings in 2013, with an average size of about 11 acres. Poland had another 1.4 million holdings averaging about 28 acres each, and Italy had over 1 million farms and an average holding of about 37 acres. These small farm sizes limit the benefits certain EU farms could realize from the economies of scale available to advanced-technology agricultural production.

The EU also has a much larger commercial animal population—nearly double that of the United States (306 million head of cattle, dairy cows, hogs, and sheep in 2020 compared with 171 million in the United States) but with smaller average animal numbers per farm with animals.

In general, the EU's small size of farm holdings but substantially larger number relative to the United States, substantially larger presence of livestock, greater population density, and generally larger share of rural population have played a strong role in the formation of EU farm policy as compared with the United States. The EU tends to have stronger rural development and environmental emphases but allows frequent exemptions for identifiably small farming units from certain cross compliance restrictions and payment limitations.

What Is the European Union (EU)?

The EU is a political and economic partnership of European countries. It has been built up over time through a series of binding treaties.[8] The EU's origins date from 1951 to 1952, when six Western European countries in the aftermath of World War II embarked on the European integration project to promote peace, stability, and economic recovery. In order to join the EU, countries must first meet a set of established criteria, including having a functioning democracy and market economy. Currently, the EU consists of 27 European countries.[9]

Although each member of the EU remains a sovereign country, member states have agreed to share sovereignty in specified areas. On many economic and social issues, EU member states have largely pooled sovereignty, and EU decisionmaking has a supranational quality. On issues such as foreign policy and defense, EU member states seek to cooperate where possible, but decisions require unanimous agreement among all 27 countries, and national governments thus retain greater control.

Over the years, the EU has sought to harmonize laws and adopt common policies in an increasing number of areas. EU member states share a customs union; a single market in which goods, people, and capital move freely; a common trade policy; and a Common Agricultural Policy (CAP). Nineteen EU member states share a common currency (the euro), a common central bank (the European Central Bank), and a common monetary policy. These 19 member states are referred to collectively as the "eurozone." They do not have a common fiscal policy, and member states retain control over decisions about national spending and taxation—subject to certain conditions designed to maintain budgetary discipline. Twenty-two EU member states (and four other European countries) participate in the Schengen area of free movement in which internal border controls have been eliminated.

Key EU institutions include the following:

- The European Council, composed of EU heads of state or government, acts as the strategic guide and driving force for EU policy.
- The European Commission functions as the EU's executive. It is responsible for proposing legislation, implementing decisions, upholding the EU's treaties, representing the EU internationally on many issues, and much of the day-to-day running of the EU. It is composed of 27 commissioners; one serves as president while the others hold distinct portfolios (the European commissioner for agriculture is currently Janusz Wojciechowski). The directorates-general (DGs) and services under the commission are responsible for policy areas—for example, the DG for Agriculture and Rural Development—and are each headed by a director-general.

[8] **Table 3** provides a chronological list of EU enlargement and agricultural policy developments.

[9] The EU currently recognizes five countries as official candidates for membership—Albania, Montenegro, North Macedonia, Serbia, and Turkey—and two countries as potential future EU candidates—Bosnia and Herzegovina and Kosovo.

- The Council of the European Union (also known as the Council of Ministers) represents the national governments of member states. Different ministers from each country participate in council meetings depending on the subject under consideration (e.g., agriculture ministers would meet to discuss farm subsidies).
- The European Parliament represents, and is directly elected by, citizens across the EU. It consists of 705 members.

Source: CRS Report RS21372, *The European Union: Questions and Answers*.

The Evolution of EU and U.S. Farm Programs

Comparisons of agricultural support outlays between the United States and the EU are complicated by the difficulties inherent in defining what constitutes support—or even what constitutes agriculture.[10] U.S. and EU farm program support differs in size and scope, as well as in the manner in which the support is provided. Examples are below.

- In the United States, Congress develops and authorizes federal farm policy. In contrast, the European Commission traditionally has developed EU agricultural policy, largely outside of the legislative arena. It is since the Lisbon Treaty of 2009 that the European Parliament was given the power to amend agricultural policy as proposed by the commission.
- The United States traditionally has focused its producer support programs on dairy and row crops, such as grains, oilseeds, and cotton. In addition, the United States has provided substantial support to the sugar sector via supply management and import quotas. EU agricultural policy provides support to a broader range of farm and food products than the United States—traditional row crops, sugar, and dairy, as well as livestock products and fresh and processed fruits and vegetables—with more extensive cross compliance provisions.

Both the United States and the EU have relied on similar policy instruments to support their respective agricultural sectors—commodity-specific, price-triggered supports; direct payments to producers; supply controls; and border measures—although their implementation and the range of affected commodities have been fairly different over the years. To fully appreciate the current status of U.S. and EU farm policy, this section briefly reviews the origins and evolution of their respective policies.[11]

[10] For example, the single largest outlay under U.S. agricultural support notifications to the WTO is payments made under the Supplemental Nutrition Assistance Program (SNAP), formerly known as food stamps. The Organisation for Economic Co-operation and Development (OECD) considers SNAP payments to be consumer subsidies, not producer subsidies. Meanwhile, U.S. agricultural support totals exclude billions of dollars of tax credits to U.S. biodiesel blenders and mandated biofuels usage under the Renewable Fuels Standard, which have provided substantial support for the U.S. grain and oilseed sectors.

[11] **Table 3** provides a chronological list of EU enlargement and agricultural policy developments. U.S. farm policy, described in more detail in other CRS reports, is mentioned briefly here to provide context for understanding the EU's farm policy evolution. For more information on U.S. farm policy, see CRS Report RS22131, *What Is the Farm Bill?*; CRS In Focus IF11163, *2018 Farm Bill Primer: The Farm Safety Net*; and CRS Report R45730, *Farm Commodity Provisions in the 2018 Farm Bill (P.L. 115-334)*.

Agricultural Policy Origins

Current U.S. farm policy has its origins in the Great Depression, when nearly 20% of Americans lived in rural areas and derived their livelihoods either directly or indirectly from agriculture. As a result, the initial focus of U.S. farm policy was supporting commodity prices and rural incomes.

EU farm policy began later, following the devastation of World War II and the creation of the precursor European Economic Community (EEC) on January 1, 1958, based on the 1957 Treaty of Rome.[12] During the late 1940s and early 1950s, Europe confronted serious food shortages. Although the shortages subsided by the mid-1950s, Europe remained a major importer of foodstuffs well into the 1970s. Thus, the EEC's initial policy focus was on ensuring adequate internal food supplies and supporting the rural economy.

The six-country EEC (France, West Germany, Italy, the Netherlands, Belgium, and Luxembourg) established its Common Agricultural Policy (CAP) in 1962 based on three major principles:

1. a *unified market* in which there is a free flow of agricultural commodities with common prices within the EU;
2. *product preference* for domestic production in the internal market over foreign imports through common customs tariffs; and
3. financial solidarity through *common financing* of agricultural programs.

The CAP's original objectives were to increase agricultural productivity, ensure fair living standards for farmers, stabilize markets, and ensure food availability at reasonable prices.[13] These aims were achieved primarily by the EEC intervening in commodity markets to buy farm output when market prices fell below agreed target prices. To prevent imports from undercutting the high internal prices that resulted from the operation of the intervention buying system, the EEC levied variable tariffs on imported agricultural products. The surpluses of agricultural products that resulted from the high internal prices of the intervention buying system were reduced by export subsidies. The system of intervention buying, import levies, and export subsidies was carried out in various common market organizations (CMOs) for each of the different commodities: bananas, cereals, floriculture, dried fodder, fruits and vegetables, hops, olive oil and table olives, flax and hemp, eggs, pork, milk products, rice, seeds, sugar, tobacco, beef and veal, sheep meat and goat meat, wine, poultry meat, and other agricultural products.

Encouraging Surplus Production

The United States was a major beneficiary of Europe's large agricultural import needs during the 1940s and 1950s. Despite strong U.S. exports to Europe, by the late 1950s, technological advances combined with relatively strong government price supports had led to the accumulation of large U.S. stocks of grains and cotton. In response, U.S. farm policy instituted supply management provisions in the 1960s, including acreage planting restrictions and large global food aid donations for surplus removal.

[12] In 1967, the European Economic Community (EEC)—along with the European Coal and Steel Community and the European Atomic Energy Community—collectively became known as the European Community (EC), although the EEC remained a legal entity in its own right. In 1993, the Masstricht Treaty established the modern-day EU, which incorporated the EEC/EC.

[13] These were the objectives for a common agricultural policy, enumerated in Article 39 of the 1958 Treaty of Rome, establishing the six-country EEC.

In the early 1970s, a global economic and commodity market crisis helped to draw down world grain and oilseed reserves, sharply raised global commodity prices, and induced both the United States and the EEC to increase support for their respective agricultural sectors.[14] For example, the United States instituted commodity-price targets linked to the cost of production, thus building in a self-inflating aspect that encouraged increasing support outlays and concomitant agricultural output independent of market conditions. Similarly, the EEC maintained internal support prices at levels well above world market conditions, thus isolating domestic producers from international market signals.

Among the unintended consequences of the CAP were high prices for European consumers and high budget expenditures. During the 1970s and 1980s, the CAP accounted for as much as 70% of the total EEC budget. EEC trading partners criticized the CAP for distorting world markets and interfering with global agricultural trade. By 1986, with the EEC having expanded to 12 members, the CAP's support programs resulted in increasing budget outlays.

By the mid-1980s, price and income supports in the United States and the EEC had resulted in overproduction and large stock accumulations (a substantial portion were government-owned). Burgeoning EEC and U.S. supplies in the world's two dominant grain stock holders swelled global stocks to record levels, dampened global commodity prices, and created intense budgetary pressures for reform. By 1982, the CAP had successfully contributed to shifting the EEC from a food deficit to surplus, and extensive use of export subsidies had increased the EEC's share of world food exports, often at the expense of U.S. exporters. In 1985, the United States responded with its own export subsidy program—the Export Enhancement Program—to help protect U.S. market share in international markets.[15] The United States and the EEC recognized their dilemma in precipitating an agricultural trade war but were hesitant to unilaterally undertake reforms for fear of losing market share in the very competitive international marketplace.

The Mid-1980s Period of Market-Oriented Reforms

The United States began to slowly rein in direct farm support levels, starting with the 1985 farm bill (P.L. 99-198), which lowered Commodity Credit Corporation price-support loan rates, froze income support target prices and program yields used to calculate per-acre payments, and introduced special marketing loan repayment provisions for rice and cotton to avoid government stock ownership. Under the 1990 farm bill (P.L. 101-624), acreage eligible for income support payments was reduced, and acreage set-asides were tied to end-of-season stocks, making them mandatory when stocks were too high relative to usage.

By the early 1990s, with further enlargement looming, the EEC reduced its budgetary liability (**Table 3**). The prospect of enlarging eastward toward larger countries with smaller and poorer farm households heightened the urgency of reform. The EEC followed the United States by initiating the MacSharry Reforms of 1992, which reduced internal support prices and compensated for lower prices by making production-based (i.e., coupled) payments. In 1993, the Maastricht Treaty established the modern-day EU, incorporating the EEC.

[14] For more information, see Pete Riley, "Global Grain Markets in 1996: Shades of 1972-74?," U.S. Department of Agriculture (USDA), Economic Research Service (ERS), *Agricultural Outlook*, AO-233, September 1996, pp. 2-6.

[15] Karen Ackerman and Mark Smith, *Agricultural Export Programs: Background for 1990 Farm Legislation*, ERS, AEGS 9033, 1990.

The WTO Encourages Policy Reform

The legal texts of the WTO further crystallized the drive to reform farm policy by moving away from government supply management and toward a more liberalized market and trade environment.[16] The creation of the WTO in 1995 marked a turning point in the history of the multilateral trading system by subjecting agricultural trade to essentially the same rules that disciplined trade in industrial goods: WTO members committed to reduce the use of export subsidies and domestic support to agriculture and to improve access to their markets.

The 1996 U.S. farm bill (P.L. 104-127) made substantial policy changes toward greater market orientation. In addition to eliminating most planting restrictions, as well as farmer-owned (but government-financed) grain reserves, the bill replaced target-price deficiency payments (i.e., a countercyclical income support program) with direct payments (i.e., a lump sum decoupled payment) and extended the use of special marketing loan repayment provisions (first begun for rice and cotton in the 1985 farm bill) to other major program crops. This effectively curtailed the U.S. Department of Agriculture's (USDA's) role in commodity storage and management.

The EU also continued to increase the market orientation of its own farm policy. The Agenda 2000 reforms further lowered support prices, replaced them with even larger production-based direct payments, and required that some farmland be taken out of production. Budget disciplines designed to reduce the growth in community spending on the CAP were established in 2002.

Two Pillars of the Reformed Common Agricultural Policy

In 2003, another round of CAP reforms continued the pattern of replacing government controls with greater market orientation and established the two pillars of agricultural policy that represent the core of today's CAP:

- *Pillar I* for direct payments and market and farm income support policies (financed entirely from the EU budget); and
- *Pillar II* for rural development policies (co-financed with EU member states).[17]

The major component of Pillar I is decoupled direct payments, which replaced the coupled, production-based payments made under commodity-specific CMOs.[18] Thus, support became largely decoupled from current prices and production. EU member countries could temporarily couple payments to production but had to move toward full decoupling. The 2003 reforms also imposed a ceiling on Pillar I spending—increases were limited to 1% per year in nominal terms during the 2007-2013 EU budget period. In addition, the receipt of farm income support was made conditional upon the farmer meeting an extensive array of new agricultural and environmental norms introduced in 2003. This "conditionality" is analogous to conservation compliance provisions in U.S. farm policy but is applied more extensively to include food safety, animal and plant health, animal welfare, and other conditions.[19] The budget for Pillar II was intended to more than double by 2013, but budget restrictions limited spending.

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[16] The WTO was established on January 1, 1995, following the completion of the Uruguay Round of multilateral trade negotiations in 1994. WTO legal texts are available at https://www.wto.org/english/docs_e/legal_e/legal_e.htm.

[17] *Rural development* is broadly defined under the Common Agricultural Policy (CAP) and may be interpreted differently among member states. See European Commission "Rural Development," at https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/rural-development_en.

[18] Initially referred to as the single farm payment (SFP) by the Agenda 2003 reforms.

[19] See CRS Report R46248, *U.S. Farm Programs: Eligibility and Payment Limits*.

In 2004, the EU reformed the CMOs supporting hops and the Mediterranean commodities—cotton, olive oil, and tobacco. In 2006, reform of the EU sugar program was initiated, culminating with abolition of sugar quotas in 2017. The 2008 CAP Health Check built on the 2003 reforms. It simplified the CAP's direct aid system, established a process for shifting funding from direct aid to rural development (referred to as modulation), clarified support for newly acceded countries, and increased milk quotas, gradually leading up to their abolition in 2015.[20] Reform of the EU wine sector began in 2008, including the end to the planting rights system by 2018. Finally, the 2008 CAP Health Check eliminated partial coupling for all but a few commodities (primarily livestock) by 2012.

Table 3. Chronology of EU Enlargement and CAP Reforms

Year	Event
1951	The six-country European Coal and Steel Community formed (treaty signed in 1951; started operations in 1952).
1957	**Treaty of Rome** establishes six-country European Economic Community (EEC): France, West Germany, Italy, the Netherlands, Belgium, and Luxembourg (treaty signed in 1957; started operations in 1958).
1962	**Common Agricultural Policy (CAP)** first implemented based on (Pillar I) high internal support prices and effective border controls on imports. Policy objectives were to provide food security for citizens of EEC member states and a fair living for farmers.
1973-1990	United Kingdom (UK), Ireland, and Denmark join the EEC in 1973. Greece joins in 1981. Spain and Portugal join in 1986 to form the **EEC-12**. East Germany is unified with West Germany in 1990.
1970s-1980s	**Crisis years**.[a] Farmers respond to high internal price supports with bountiful production and large but costly domestic surpluses. Specific measures put in place to help align production with market needs—including export subsidies to push domestic surpluses into international markets—contribute to large budgetary outlays and growing friction with international trading partners.
1992	**MacSharry Reforms** shift CAP's policy focus from market to producer support, reduce support prices, introduce set-aside to reduce output and production-based direct payments to compensate for lower support prices, and take steps to protect traditional and regional foods.
1993	**Maastricht Treaty** establishes the European Union (EU), incorporating the EEC.
1995	Austria, Finland, and Sweden join to form the **EU-15**. Rural development programs introduced.
2000	**Agenda 2000** reforms further reduce intervention prices (again compensated by further production-based direct payments) and make rural development a second pillar (Pillar II) of the CAP.
2001	**Everything but Arms Agreement** gives all less-developed countries full duty-free and quota-free access to the EU for all their exports with the exception of arms and armaments. By mid-2000s, the EU is the world's largest importer of agricultural products from developing countries, importing more than the United States, Japan, Australia, and Canada combined.
2002	CAP budget is fixed at 1% annual growth for 2007-2013.
2003	**2003 Reforms** establish decoupled direct payments—the single farm payment (SFP) based on historical 2000-2002 payments—with cross compliance based on animal welfare, environmental, and food safety criteria. The SFP replaced the production-based payments of MacSharry and Agenda 2000 reforms.
2004	**Reform of hops and Mediterranean commodities** (cotton, olive oil, and tobacco). EU-15 expands to the **EU-25** with the addition of Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Cyprus, and Malta.
2006	**Reform of the EU sugar program** begins in July 2006.
2007	EU-25 expands to the **EU-27** with the addition of Bulgaria and Romania. The EU farming population has doubled to nearly 14 million holdings since 2004 through new member accession.
2008	**CAP Health Check of 2008 reforms** simplify the SFP, abolish arable set-aside, and initiate dairy reform, gradually leading to abolition of milk quotas in 2015. Reform of the EU wine support programs begin, including the end to the planting rights system by 2018 at the latest. Sugar quotas were set to be abolished in 2017.

[20] European Commission, "'Health Check' of the CAP," at http://ec.europa.eu/agriculture/healthcheck/index_en.htm.

Year	Event
2009	**Lisbon Treaty enters into force** and gives the European Parliament a say equal to that of the Council of Ministers over the vast majority of EU legislation, including agricultural policy.
2013	Croatia joins to form the **EU-28**. **CAP Reform Post-2013**, focused on the 2014-2020 budget period, further simplifies the CAP by reducing licensing requirements and marketing standards, removing production constraints (particularly for sugar started in 2006 and dairy and wine started in 2008), expanding environmental compliance for Pillar I payments, increasing flexibility for member states in shifting funding between Pillars I and II, and adding convergence criteria to establish minimum national average per hectare payments across all members by 2020, among other changes.
2018	The European Commission introduces (June 1, 2018) a new round of CAP reform, "**CAP Reform Beyond 2020**," set to start on January 1, 2021, and focused on the 2021-2027 budget period. The proposal includes significant cuts (-2.8%) to the CAP budget—primarily Pillar II, rural development. The reforms retain the core CAP structure but emphasize a higher level of environmental and climate ambition.
2019	Due to ongoing negotiations between the European Parliament and Council of the EU, the provisional start date of January 1, 2021, of the proposed CAP reform is moved to January 1, 2023. To allow for continued payments to farmers and other CAP beneficiaries, a **transitional regulation** is introduced for 2021 and 2022 that extends most CAP rules in place during the 2014-2020 period. The commission introduces (December 11, 2019) the European Green Deal.
2020	The UK withdraws from the EU in January 2020, reducing the number of member states to 27. The commission introduces (May 20, 2020) the Farm to Fork Strategy and Biodiversity Strategy to reorient CAP functionality with the European Green Deal.
2023	Once the new legal framework for the **CAP Reform Beyond 2020** package has been approved, CAP strategic plans are due to be implemented in all EU countries starting on January 1, 2023.

Source: Compiled by CRS from various sources.

Note:

a. European Commission, Agriculture and Rural Development, "The History of the CAP," downloaded on May 9, 2016, at http://ec.europa.eu/agriculture/cap-history/index_en.htm.

CAP Reform: 2013 to Present

The EU follows a seven-year budget cycle—referred to as a multiannual financial framework (MFF). The EU's agricultural policy aligns with and is funded primarily from the MFF.[21] The MFF represents the overall size of the EU budget. As such, it defines both the spending ceilings for the various programs financed by the EU, including the CAP, and how the EU budget is to be financed. The current MFF covers the seven-year period of 2021-2027.

The two most recent rounds of CAP reform have aligned with MFF budget cycles: the 2013 CAP reform corresponded with MFF 2014-2020, and the newest CAP Reform Beyond 2020 aligns with the MFF 2021-2027 period. These two CAP reform initiatives have incorporated additional agriculture-related conditionality measures linked to meeting EU goals with respect to the environment, sustainability of food systems, animal welfare, food safety, and climate. Thus, CAP benefits have become increasingly linked to producer compliance with these overarching, EU-wide policy goals. In addition to increased cross compliance, these two recent reforms have tried to simplify the policy and regulatory framework associated with CAP benefits.

[21] Member states can provide additional funding for certain Pillar II intervention activities described in the section "Pillar II: Rural Development Programs."

The 2013 CAP Reform

The 2013 CAP reform further simplified the CAP by reducing domestic licensing requirements and marketing standards and removing all remaining production constraints (particularly for sugar, dairy, and wine). In addition, it expanded environmental compliance for Pillar I payments, increased flexibility for member states in shifting funding between Pillars I and II, and added convergence criteria to establish a minimum national average per hectare payment across all members by 2020, along with other changes.[22] The 2013 CAP reform provided the structure for the EU's current CAP policy regime.

CAP Reform Beyond 2020

In June 2018, the European Commission presented several legislative proposals to reform the CAP for the EU budget period 2021-2027.[23] Following the commission's submission of its proposal, negotiations over the final CAP reform package and its timeline began in the European Parliament (representing EU citizens) and the Council of the EU (representing member states).[24] The Parliament and Council can each amend or modify the commission's proposal but must agree on any changes before it can become EU law.

Initially, the CAP reform for MFF 2021-2027 was targeted for implementation on January 1, 2020. However, interinstitutional negotiations became prolonged, and the onset of the COVID-19 pandemic further delayed negotiations. To avoid any gap in CAP support between the MFF 2014-2020 and the MFF 2021-2027, the commission proposed a transitional regulation to extend the previous CAP through 2022. Thus, the CAP reform package is expected to start on January 1, 2023.[25] The transitional regulation extends most of the CAP rules that were in place during the 2014-2020 period and includes new elements to encompass stronger green ambitions and ensure a smooth transition to the future CAP framework, as set out in the commission's proposals.

Because the commission's 2018 CAP reform proposal—which builds on the current CAP provisions—has yet to be finalized, it is discussed in the section "The European Commission's 2018 CAP Reform Proposal," following the next section, which describes current CAP funding.

Current CAP Funding

Agriculture is one of the principal policy areas where all EU member states sacrifice national sovereignty in favor of a common policy—the CAP—which governs agricultural policies and programs for the EU's 27 member countries. This section briefly describes the current CAP and its funding levels.[26]

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[22] Historically, per-acre payments have been much smaller in acceding countries, particularly in Eastern Europe.

[23] Albert Massot and Francois Negre, *Towards the Common Agricultural Policy beyond 2020: comparing the reform package with the current regulations*, European Parliamentary Research Service (EPRS), PE 617.494, September 2018. The European Commission's CAP reform package includes three principal legal texts: COM (2018) 392, covering the proposal's architecture and rules and the types of interventions to be implemented by EU member states; COM (2018) 393, proposing financing, management, and monitoring of the reformed CAP; and COM (2018) 394, proposing the amendments to previous law needed to enact the reform proposal.

[24] Blandford and Matthews, "EU and US Agricultural Policies," 2019.

[25] Rachel Rossi, *Transitional Provisions for the CAP Post 2020*, EPRS, December 2020. The previous round of CAP reforms for the multiannual financial framework (MFF) 2014-2020 underwent a similar delay, as it was decided in 2013 and implemented in 2015.

[26] This section draws heavily from various informational reports published by EPRS and OECD, "Chapter 9: European

As discussed earlier in this report, the CAP is focused on three long-term priorities:

1. Promoting viable food production with a focus on agricultural income, agricultural productivity, and price stability;
2. Promoting sustainable management of natural resources and climate action, with a focus on greenhouse gas emissions, biodiversity, soil, and water; and
3. Promoting balanced territorial development, with a focus on rural employment, growth, and poverty in rural areas.

Although the long-term policy goals have remained fairly consistent, the specific nature and program features used by the CAP to achieve such goals have evolved significantly since the 1990s, shifting from support that intervened heavily in the marketplace to more decoupled, better targeted, and more environmentally friendly support. For example, in 1992, market-related support measures represented over 90% of total CAP expenditures, driven by domestic purchases at high internal support prices and export subsidies to push domestic surpluses into international markets.[27] In the CAP 2021-2027 budget proposal, market support measures represent 5% of outlays, and farm income support in the form of decoupled direct payments accounts for 73% of the budget. Rural development is expected to comprise the remaining 22% (**Table 4**).

How Is the CAP Administered, Legislated, and Funded?

Administering the Common Agricultural Policy (CAP)

The European Commission administers the CAP through its Directorate General (DG) for Agriculture and Rural Development.[28] The current commissioner is Janusz Wojciechowski (2019-present). The DG for Agriculture and Rural Development, based in Brussels with a staff of about 1,000, is led by Director-General Wolfgang Burtscher (April 2020-present). It is responsible for implementing agriculture and rural development policy, the latter managed in conjunction with the other DGs that deal with structural policies.

Legislating the CAP

Prior to the Lisbon Treaty (2009), the commission proposed changes to the CAP, after a public consultation, and sent its proposals to the Council of Ministers (meeting in its agricultural ministers formation) for approval. Thus, EU agricultural policy was somewhat technocratic in nature, as the commission's economists and agricultural specialists determined policy design and intent free of most direct political pressures. This changed with the Lisbon Treaty, which gave the European Parliament a say equal to that of the Council of Ministers over the vast majority of EU legislation, including agricultural policy. The commission now sends proposed policy changes to both the Council and the European Parliament. Both the Council and the Parliament must agree to any changes. The European Parliament first was involved in the agricultural policy reform process in the June 2013 CAP reform.

Funding the CAP

CAP funding is part of the EU's multiannual financial framework (MFF), which sets a budget framework (inclusive of budget disciplines and national co-financing requirements) for a seven-year period for all EU supranational functions.[29] The current MFF is for 2021-2027. Two separate funds finance CAP activities:

- **European Agricultural Guarantee Fund (EAGF)**, which provides "compulsory expenditures" for Pillar I activities; and
- **European Agricultural Fund for Rural Development (EAFRD)**, which finances or co-finances Pillar II support. Co-financing is at the discretion of individual member states.

Union," in *Agricultural Policy Monitoring and Evaluation 2015* (Paris: OECD Publishing, 2015), pp. 133-147 (hereinafter OECD, *Policy Monitor 2015*).

[27] Under the early CAP programs, domestic purchases of surplus production were referred to as "intervention buying," and export subsidies were called "refunds."

[28] For more information, see European Commission, Directorate General (DG) for Agriculture and Rural Development, at https://ec.europa.eu/info/departments/agriculture-and-rural-development_en.

[29] EPRS, "Financing the CAP," by Albert Massot in *Fact Sheets on the European Union - 2016*, January 2016.

The CAP Budget: Previous (2014-2020) and Proposed (2021-2027)

The share of the EU budget going to the CAP has been steadily declining since the 1980s. The CAP represented 66% of the budget for the then-EEC in the early 1980s and 36% of the EU budget for 2014-2020. In the proposed MFF 2021-2027, the CAP's share of the EU budget is expected to decline to 31.3% (**Table 4**).

Under the proposed 2021-2027 budget, the CAP would be set at €336.4 billion in 2018 values (or approximately $386.6 billion), with an expected annual average of about €48.1 billion per year ($56.7 billion) (**Table 4**).[30] This would represent a decline of 18% from the previous seven-year CAP budget for 2014-2020 of €411.1 billion. The principal reasons for the substantial decline are the cumulative effect of Brexit (i.e., the departure of the UK from the EU) and the perceived need to finance other new challenges facing the EU, such as trade conflicts and climate change.

In the MFF 2021-2027, direct payments are expected to receive the majority (71%) of the funding, with rural development (23%) and market measures (6%) comprising the balance. Budget flexibility for member states allows the possibility of shifting up to 15% of their national funding between pillars (and programs) to achieve national goals.[31]

Table 4. CAP Subceilings in the EU Budget: 2014-2020 vs. 2021-2027

(all data are in 2018 values to facilitate comparison)

	EU-28: 2014-2020[a]		EU-27: 2021-2027		EU-27: 2021-2027		
Item	**Total**	**Ann. Avg.**	**Total**	**Ann. Avg.**	**Total**	**Ann. Avg.**	**Share**
	€ Billion				US$ Billion		
Pillar I—Market Support	309.1	44.2	258.6	36.9	305.3	43.6	77%
Direct Payments (BPS, SFP)	291.6	41.7	238.8	34.1	281.9	40.3	71%
Market Measures (CMO)	17.5	2.5	19.8	2.8	23.3	3.3	6%
Pillar II—Rural Development	102.0	14.6	77.8	11.1	91.8	13.1	23%
Total CAP	**411.1**	**58.7**	**336.4**	**48.1**	**386.6**	**56.7**	**100%**
Total MFF	**1,136.1**		**1,074.3**		**1,279.4**		

Source: European Council, "Multiannual financial framework for 2021-2027 adopted," accessed May 24, 2021, at https://www.consilium.europa.eu/en/press/press-releases/2020/12/17/multiannual-financial-framework-for-2021-2027-adopted/; and European Commission, "Common agricultural policy funds," accessed May 24, 2021, at https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/financing-cap/cap-funds_en#overview.

Notes: BPS = Basic Payment Scheme; SFP = Single Farm Payment; CMO = common market organization; CAP = Common Agricultural Policy; MFF = multiannual financial framework. Euros are converted to U.S. dollars at the 2020 rate of €0.877 per U.S. $; Agricultural Exchange Rate Data Set, Economic Research Service, USDA, April 18, 2021.

a. Data for 2014-2020 are for the EU-28 (inclusive of the United Kingdom).

[30] European Council, "Multiannual financial framework for 2021-2027 adopted," accessed May 24, 2021, at https://www.consilium.europa.eu/en/press/press-releases/2020/12/17/multiannual-financial-framework-for-2021-2027-adopted/.

[31] Member states whose funding levels average below 90% of the EU average Pillar I payment per hectare may transfer up to 25% from Pillar II to Pillar I.

The 2013 CAP reform tightened the link between the two pillars by expanding direct payments to have seven potential components—several with rural development aspects (as described in the **Appendix**). In addition, payments made under both pillars are subject to a common set of cross compliance requirements (discussed below). Furthermore, the CAP sets rules and regulations for how funds may be used between and within these two pillars. In addition to the CAP framework, member states also generally implement supplementary measures funded at the national level that may target specific local or national objectives.

Pillar I: Market-Related Support and Direct Payments

Pillar I defines and funds market measures for supported commodities under a single regulatory structure referred to as the CMO.[32] The CMO's market support tools include what has been the centerpiece of the CAP since 2003—a largely decoupled direct payment per hectare (background provided below and in the **Appendix**), in support of farm incomes. The European Agricultural Guarantee Fund (EAGF) entirely funds market measures and direct payments—worth €254.3 billion (2018 values or U.S. $300.1 billion) for 2021-2027, including €17.7 billion for market measures and €237.6 billion for direct payments (**Table 4**).

Market Support Measures

The CMO historically provided the framework for the various commodity-specific market support schemes, which took different forms depending on the commodity sector to which they applied. Prior to 2007, the EU had 21 different commodity CMOs. By 2007, following a series of reforms, the separate CMOs had been codified into a single CMO covering all agricultural products.

The CMO has an internal aspect (covering market intervention and rules on marketing and producer organizations) and an external one (covering trade with third countries—import and export certificates, import duties, administration of tariff quotas and export refunds, etc.). The CMO addresses the competition rules applicable to enterprises and the rules on state aid. It contains general provisions concerning exceptional measures (including measures to guard against market disruption caused by price fluctuations or other events, market support measures in the event of outbreaks of animal diseases or a loss of consumer confidence owing to public health, animal or plant health risks, and measures relating to concerted practices adopted in periods of serious imbalances on the markets).

Reforms to the CAP have also made the CMO policy progressively more market-oriented and diminished the role played by intervention tools, which experts regard as safety nets for use only in the event of a crisis.[33] The 2013 CAP reform further enhanced the competitive posture of EU agriculture by removing all remaining restrictions on production volumes for sugar, dairy, and the wine sector, thus allowing farmers to respond to world market signals.

In support of internal commodity markets, the 2013 reforms established a new reserve fund for addressing crises in the agriculture sector—referred to as the Crises Reserve—composed of seven equal annual tranches of €400 million each (at 2011 prices). The Crises Reserve is available to

[32] The common market organization (CMO) is essentially a set of regulations that (1) provide a safety net to agricultural producers through the use of market support tools; (2) encourage cooperation through producer and other organizations that represent activities involving the production of, trade in, and/or processing of agricultural products; and (3) establish minimum quality requirements (marketing standards), as well as rules on trade in agricultural products and specific rules on competition.

[33] Guillaume Ragonnaud, "First Pillar of the CAP: I—Common Organization of the Markets (CMO) in Agricultural Products," in EPRS, *Fact Sheets on the European Union - 2016*, January 2016.

finance exceptional measures to address market disruption. Funds for the Crises Reserve are to be withdrawn from the direct payments budget under Pillar I. Crisis funds not used in a given year revert to Pillar I direct payments for use in the next year.

Direct Payments

Initially created in 2003 as the Single Farm Payment (SFP), direct payments under Pillar I of the CAP were converted to the Basic Payment Scheme (BPS) under the 2013 CAP reform (more background on BPS is in the **Appendix**).[34] However, some members continued to use the SFP until 2020 at the latest.[35] The CAP reform of 2013 further shifted direct payments from an emphasis on "decoupling" to noncommodity "targeting" with seven potential targeting components (see **Appendix** for details); their use may vary at the discretion of individual member states.[36]

Pillar II: Rural Development Programs

The EU's rural development policy was introduced as the CAP's Pillar II as part of the reform known as "Agenda 2000." It involves financing or co-funding projects with economic, environmental, or social objectives, primarily targeting farms and small and medium-sized enterprises in rural areas. According to a European perspective, Pillar II is intended to help develop an agriculture that achieves an equitable balance across regions, preserves and protects the environment, avoids damaging the climate, is resilient in a context of climate change, and is competitive and innovative.[37]

Member countries design and co-finance activities under Pillar II. Each member state drafts its own strategy for implementing rural development based on a "menu" of EU measures to meet the six priority areas of Pillar II:[38] (1) fostering knowledge transfer and innovation; (2) enhancing competitiveness of all types of agriculture and the sustainable management of forests; (3) promoting food chain organization—including processing and marketing—and risk management; (4) restoring, preserving, and enhancing ecosystems; (5) promoting resource efficiency and the transition to a low-carbon economy; and (6) promoting social inclusion, poverty reduction, and economic development in rural areas.

The European Agricultural Fund for Rural Development (EAFRD), supplemented by member states, funds the EU's rural development policy. Under the MFF 2014-2020, when the EU-28 was in effect, the EAFRD was valued at €102 billion in 2018 values (**Table 4**). Each EU country received a financial allocation for the seven-year period. This leveraged a further €61 billion of public funding from the member states.[39]

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[34] European Commission, DG for Agriculture and Rural Development, "Direct Payments," January 2015.

[35] The Basic Payment Scheme (BPS) applies in the original EU-15 plus Malta, Slovenia, and Croatia. The Single Area Payment Scheme (SAPS) applied in the other member states. OECD, *Policy Monitor 2015*, p. 139.

[36] WTO provisions (described later) classify the BPS and SFP payments as nonmarket-distorting, green-box payments because they are decoupled from producer production decisions. Thus, they do not count against a country's domestic spending limit.

[37] Guillaume Ragonnaud, "Second Pillar of the CAP: Rural Development Policy," in EPRS, *Fact Sheets on the European Union - 2016*, January 2016.

[38] OECD, "Chapter 11: European Union," in *Agricultural Policy Monitoring and Evaluation 2020* (Paris: OECD Publishing, 2020), pp. 217-256.

[39] In 2016, 118 different rural development programs were operating in the then-28 member states, with 20 single national programs and 8 member states opting to have 2 or more (regional) programs. European Commission, DG for

Two conditions apply to Pillar II programs:

1. A minimum of 30% of rural development funding from the EU budget is to be spent on measures related to the environment and climate change adaptation, including forestry and investments in physical assets.
2. Another 5% is to be spent on Liaison Entre Actions de Développement de l'Économie Rurale (LEADER)—that is, relying on a multisectoral approach and local partnerships to address specific local problems, as well as technical assistance for the implementation of Pillar II measures.

Conditionality (Cross Compliance)

To receive direct payments and most rural development payments, farmers must comply with certain environmental and agricultural measures. Referred to as "conditionality" (i.e., cross compliance), this obligation currently covers two elements:[40]

1. **Statutory Management Requirements.** These requirements refer to 13 legislative standards in the field of the environment, food safety, animal and plant health, and animal welfare.
2. **Good Agricultural and Environmental Conditions.** The obligation of keeping land in good agricultural and environmental condition refers to a range of standards related to soil protection, soil organic matter and structure maintenance, avoidance of flora and fauna habitat deterioration, and water management, including ground and surface water protection from pollution of nitrates and pesticides.

The commission may reduce a farmer's direct payments if these rules are violated. Under the commission's 2018 CAP reform proposal, conditionality would play a much larger role in linking CAP benefits to various "green" performance standards as discussed in the next section.

The European Commission's 2018 CAP Reform Proposal

The commission's 2018 proposal for CAP reform aims to foster a sustainable and competitive agricultural sector that can also contribute significantly to the subsequently proposed European Green Deal (described below), especially with regard to the Farm to Fork (F2F) Strategy and Biodiversity Strategy. In particular, the proposal focuses on three policy goals: (1) securing a fair deal and a stable economic future for farmers; (2) setting higher ambitions for environmental and climate action than under the previous CAP; and (3) safeguarding agriculture's position at the heart of European society.[41]

To try to achieve these three broad policy goals, the commission has set out nine specific objectives: ensure a fair income for farmers; increase competitiveness; rebalance the power in the

Agriculture and Rural Development, "Rural Development," at http://ec.europa.eu/agriculture/rural-development-2014-2020/index_en.htm.

[40] European Commission, DG for Agriculture and Rural Development, "Cross-compliance," at http://ec.europa.eu/agriculture/direct-support/cross-compliance/index_en.htm.

[41] European Commission, "Future of the common agricultural policy," accessed April 27, 2021, at https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap_en.

food chain; climate change action; environmental care; preserve landscapes and biodiversity; support generational renewal of the farm population; foster vibrant rural areas; and protect food and individual health quality.[42]

In a departure from the previous CAP, and to help simplify the implementation of an increasingly complex CAP regulatory framework, the commission proposes a new delivery model that would emphasize outcomes and performance rather than regulatory compliance. Member states would be given additional flexibility (from current CAP implementation rules) in how to use their CAP funding, and they would be allowed to design specific CAP interventions that best fit their particular agricultural setting and natural resource endowment.

Two elements of the commission reform proposal (that already have been accepted by the European Parliament and the Council of the EU) include a "no backsliding" principle and a legal link between CAP and environmental and climate legislation.[43] Another proposed change includes a significant cut (of approximately 18%) in CAP funding over the period—with cuts coming from both Pillars I (-16%) and II (-24%).

The "Greening" of the EU's CAP

The reform proposal represents a limited modification of the current CAP, as it would retain both Pillar I (market support) and Pillar II (rural development), thus implying substantial policy continuity. The commission proposes to maintain the framework of farm income support delivered through decoupled direct payments. The reform also proposes to increase the linkages between CAP benefits and several EU environmental and climate policies proposed as part of the European Green Deal[44] (including the F2F Strategy[45] and the Biodiversity Strategy, both described in the text box, below).[46]

Major EU Environmental and Climate Initiatives

European Green Deal. Launched in December 2019 by the European Commission, the wide-ranging European Green Deal contains legislative proposals and other initiatives to address climate and environmental challenges; boost the efficient use of resources by moving to a clean, circular economy; and restore biodiversity and cut pollution while seeking to ensure economic growth and innovation.[47] A key element of the Green Deal is a new European Climate Law—that is, to enact into EU law the goal of "reaching climate neutrality by 2050 and the intermediate target of reducing net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels."[48] The European Green Deal also seeks to ensure a "just and inclusive transition" and outlines investments needed, financing tools, and other supportive interventions and calls for several new strategies, including on sustainable food and biodiversity.

[42] Ibid.

[43] European Commission, "Questions and Answers on the CAP Reform," November 17, 2020, at https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/questions-and-answers-on-cap-reform_en.pdf.

[44] See CRS In Focus IF11431, *EU Climate Action and Implications for the United States*; and European Commission, "Analysis of links between CAP Reform and Green Deal," Staff Working Document SWD 93, May 20, 2020.

[45] See CRS In Focus IF11704, *U.S. Trade Concerns Regarding the EU's Farm to Fork Strategy*; and European Commission, "A Farm to Fork Strategy for a fair, healthy and environmentally-friendly food system," Communication COM 381, May 20, 2020.

[46] European Commission, "EU 2030 Biodiversity Strategy," fact sheet, May 2020.

[47] European Commission, *The European Green Deal*, Communication COM 640, December 11, 2019.

[48] European Commission, *Establishing the Framework for Achieving Climate Neutrality*, Regulation Proposal COM 80, March 4, 2020; and European Commission, "Commission welcomes provisional agreement on the European Climate Law," press release, April 21, 2021.

Farm to Fork (F2F) Strategy. The F2F Strategy is a component of the European Green Deal that calls for transitioning to a sustainable, climate-neutral framework via four areas of improvement: (1) sustainable food production, (2) sustainable food consumption, (3) sustainable food processing and distribution, and (4) food loss and waste prevention. Concerning a sustainable food system, the term *sustainable* encompasses fairness in pricing and revenue sharing from producer to consumer; healthy and safe food products; and an environmentally friendly production and delivery system.[49] Such a sustainable food system would minimize or mitigate externalities such as its impact on pollution, loss of biodiversity, climate change, food waste, and unhealthy diets. Some of the more salient F2F strategies to achieve sustainable food production include taking action to

- reduce the overall use and risk of chemical pesticides by 50% by 2030;
- reduce nutrient loss (especially from excess use of nitrogen and phosphorous) by at least 50% by 2030, while ensuring that there is no deterioration in soil fertility;
- as a result of nutrient loss reduction, reduce the use of fertilizers by 20% by 2030;
- reduce overall EU sales of antimicrobials for farmed animals and in aquaculture by 50% by 2030; and
- increase the share of agricultural land under organic farming to at least 25% by 2030.

Other F2F strategies include (but are not limited to) EU-wide labeling for sustainable food, enhanced animal welfare measures, revised feed additives to reduce the environmental impact of animal husbandry activities, incentivized carbon farming activities, and enhanced competition rules to improve transparency and limit market power.

Biodiversity Strategy. This is an EU initiative to expand the protection and restoration of nature by improving and widening a network of protected areas and by developing an ambitious EU Nature Restoration Plan.[50] The strategy proposes

- establishing protected areas for at least 30% each of European land and sea resources;
- restoring degraded ecosystems at land and sea across the whole of Europe through a series of specific initiatives, including reducing the use and risk of pesticides by 50% by 2030; planting 3 billion trees by 2030; restoring at least 25,000 kilometers of EU rivers to a free-flowing state; halting and reversing the decline of pollinators; and increasing organic farming and biodiversity rich landscape features on agricultural land; and
- funding €20 billion per year for biodiversity through various sources, including EU funds and national and private funding. In addition, natural capital and biodiversity considerations would be integrated into business practices.

In addition to the green coupling of CAP benefits, the commission proposes a greater emphasis on research and innovation policy, with results from research investments being delivered to member states through a system of Farm Advisory Services that provide extension, technological, and scientific information to farmers.

Under the commission's proposed CAP reform, four "green architecture" pathways would be available for participation by member states: (1) mandatory conditionality regulations (described below); (2) voluntary agrienvironment-climate measures and investments (funded from Pillar II); (3) Pillar I funding for eco-schemes, such as carbon farming or agroforestry (funded from per-hectare top-up payments to farmers from the member state's direct payment fund), in lieu of the greening payments created under the 2013 CAP reform (see **Appendix**); and (4) the extension efforts of Farm Advisory Services to deliver the fruit of investments in relevant environmental and climate-related research and technologies.

[49] Tijmen Tuinsma, *Farm to Fork Strategy*, European Parliament, DG for Internal Policies, Policy Department for Economic, Scientific and Quality of Life Policies, PE 658.206, November 2020.

[50] European Commission, *EU Biodiversity strategy for 2030*, Communication COM (2020) 380, May 20, 2020.

Conditionality Couples CAP to Farm to Fork Strategy

One component of the European Commission's CAP reform proposal is what the commission is calling "enhanced conditionality." Conditionality refers to the basic requirements that producers must meet to receive CAP benefits, such as the direct payments described earlier. This concept is similar to "cross compliance" requirements that U.S. producers must meet to maintain eligibility for certain U.S. program benefits.[51] In particular, the commission proposes to link CAP conditionality to interventions that mitigate climate change, preserve biodiversity, protect wetlands and peatlands, or support animal welfare and food safety.

To evaluate whether conditionality has been met, the commission proposes that a comprehensive monitoring framework be developed that includes all relevant performance indicators and that reports on a yearly basis. While details have yet to be finalized, the commission proposes tracking CAP spending according to a system of awards whereby different categories of spending are weighted according to their relevance to climate change (from 0% to 100%). Under such a weighted system of conditionality, all beneficiaries of CAP area- and animal-related direct payments would have to abide by a range of obligations related to climate change (such as maintaining permanent grasslands and protecting wetlands and peatlands—all of which are potentially important sinks and storage of carbon).

In addition, member states may adopt eco-schemes (with 100% weights), such as carbon farming or agroforestry, to meet their conditionality requirements. Areas with natural constraints to farming (such as steep slopes or poor agronomic properties) would be deemed to not fully qualify as climate change targets and would receive only a 40% weight.[52]

Another issue that the commission proposes addressing in its CAP reform is the inequality of the distribution of direct payments. Under the CAP 2014-2020, an estimated 20% of EU farmers received 80% of payments.[53] This inequality is a result of direct payments being linked to historical land or livestock ownership. This type of linkage is referred to as "entitlement support."[54] The commission proposes to reduce direct support to €60,000 per farm and full capping of all support at €100,000 per farm per year. The commission also is proposing a mandatory redistributive payment to increase support for small and medium-sized farms by allocating higher levels of income support to those farms.

To help meet these goals, a substantial share of CAP funding at the member-state level must be climate related—a minimum of 40% of each member state's overall CAP budget and a minimum of 30% of Pillar II funding.

The CAP Reform Proposal Is a Work in Progress

The CAP reform proposals—as well as their details on implementation, measurement, and enforcement—have yet to be finalized, and the potential for effectively achieving the environmental and climate goals has yet to be demonstrated. In addition to uncertainty over their

[51] For details on cross compliance, see European Commission, "Questions and Answers on the CAP Reform," November 17, 2020.

[52] Additional "greening" interventions that can be linked to CAP interventions are described in the documentation for the European Green Deal, the Farm to Fork Strategy, and the Biodiversity Strategy, as provided in earlier footnotes.

[53] European Commission, "Questions and Answers on the CAP Reform," November 17, 2020.

[54] A similar situation exists in U.S. agricultural support with respect to decoupled payments made on historical base acres under the Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC) revenue support programs. See CRS Report R45730, *Farm Commodity Provisions in the 2018 Farm Bill (P.L. 115-334)*.

potential effectiveness, there is considerable uncertainty over the potential for the stringent environmental and climate-related requirements to spill over into international markets.

As part of its climate action initiatives, the EU is working on a future carbon border adjustment mechanism—such as a border tax—to reduce risks to competitiveness and avoid risks of emission shifts to countries with less ambitious climate policies.[55] In March 2021, John Kerry—President Joe Biden's envoy on climate—warned the EU that a carbon border tax adjustment should be a "last resort."[56] Others have expressed concern that the EU's F2F Strategy could become "problematic" for transatlantic trade and any future U.S.-EU trade talks, particularly with regard to international trade standards.[57]

An Overview of Current U.S. Agricultural Policy

The 2018 farm bill (the Agricultural Act of 2018, P.L. 115-334) authorizes most of current U.S. farm policy.[58] The farm bill is an omnibus, multiyear (2019-2023) piece of authorizing legislation that governs agricultural and food programs, including traditional commodity programs as well as conservation, trade, rural development, nutrition, and other program areas.[59] The 2018 farm bill authorizes traditional farm programs, such as farm revenue support, as well as conservation, nutrition, rural development, and other miscellaneous programs.[60]

The U.S. farm commodity safety net comprises three traditional components.

1. **Traditional Farm Commodity Programs.** These programs represent the heart of U.S. farm policy by virtue of their long history (dating back to the 1930s).[61] The marketing assistance loan program establishes minimum prices for approximately two dozen commodities, including corn, soybeans, wheat, rice, and peanuts. In addition, producers with production histories for covered crops could choose between two revenue support programs—the Price Loss Coverage (PLC) and Agriculture Risk Coverage (ARC) programs.
2. **Agricultural Disaster Assistance.** Such assistance is permanently authorized for livestock and orchards.[62]
3. **Federal Crop Insurance Program (FCIP).** Authorized outside of the farm bill, FCIP available subsidized insurance for more than 130 commodities to help farmers manage risks associated with a loss in yield or revenue.[63] Producers pay a portion of the premium, which increases as the level of coverage rises. USDA

[55] See CRS In Focus IF11431, *EU Climate Action and Implications for the United States*.

[56] Leslie Hook, "John Kerry warns EU against carbon border tax," *Financial Times*, March 12, 2021.

[57] See CRS In Focus IF11704, *U.S. Trade Concerns Regarding the EU's Farm to Fork Strategy*.

[58] Federal crop insurance is permanently authorized under the Agricultural Adjustment Act of 1938 (P.L. 75-430) and the Federal Crop Insurance Act of 1980 (P.L. 96-365), as amended. Supplementary agricultural disaster assistance programs are permanently authorized by the 2014 farm bill (P.L. 113-79).

[59] For details, see CRS In Focus IF11126, *2018 Farm Bill Primer: What Is the Farm Bill?*; and CRS Report R45525, *The 2018 Farm Bill (P.L. 115-334): Summary and Side-by-Side Comparison*.

[60] For details, see CRS Report R45425, *Budget Issues That Shaped the 2018 Farm Bill*.

[61] See CRS Report R45730, *Farm Commodity Provisions in the 2018 Farm Bill (P.L. 115-334)*.

[62] See CRS Report RS21212, *Agricultural Disaster Assistance*.

[63] See CRS Report R46686, *Federal Crop Insurance: A Primer*.

pays the rest of the premium—62%, on average, in 2020—and covers the cost of selling and servicing the policies.

In addition to its three traditional components, ad hoc payments that respond to unexpected events frequently supplement the U.S. farm safety net. USDA's use of such ad hoc payments has grown in recent years to the point where such ad hoc payments now rival traditional safety net programs in value. For example, during 2017-2019, over $5 billion was appropriated for a Wildfires and Hurricane Indemnity Program (WHIP and WHIP+);[64] during 2018 and 2019, in response to trade disputes, USDA implemented ad hoc payments valued at over $23 billion;[65] and in 2020, USDA targeted nearly $40 billion in appropriations to agricultural producers in response to food chain disruptions associated with the COVID-19 pandemic.[66]

Unlike the EU, where direct payments represent the largest share (73%) of the projected CAP budget for 2014-2020 (**Table 4**), domestic nutrition programs comprise the largest share (80%) of projected U.S. farm bill outlays over the five-year farm bill period 2014-2018 (**Table 5**).

Table 5. U.S. 2018 Farm Bill Projected Outlays ($ Billions), FY2019-FY2023

Program Area	Projected outlays FY2019-FY2023	Annual Average	Share
Farm Safety Net	$71.4	$14.3	17%
Commodity Programs and Disaster Assistance	$33.4	$6.7	7%
Crop Insurance	$38.0	$7.6	9%
Rural Development[a]	$1.6	$0.3	0%
Conservation and Forestry	$29.3	$5.9	9%
Nutrition[b]	$390.7	$65.2	80%
Total Farm Bill	**$428.3**	**$85.7**	**100%**

Source: CRS Report R45425, *Budget Issues That Shaped the 2018 Farm Bill*. The Congressional Budget Office projected outlays at the time of the 2018 farm bill enactment.

a. Includes trade, credit, bioenergy, research, extension, and related matters.

b. Primarily the Supplemental Nutrition Assistance Program (SNAP).

Comparing Farm Support: The EU and United States

This final section compares EU and U.S. agricultural support programs and outlays based on two international data sources: (1) annual domestic support notifications to the WTO and (2) a set of comparative policy measures published annually by OECD as part of its country-level policy database. Each of these data sources uses a slightly different metric to evaluate and measure agricultural support but arrives at very similar conclusions.[67]

[64] CRS In Focus IF11539, *Wildfires and Hurricanes Indemnity Program (WHIP)*.

[65] CRS In Focus IF11289, *Farm Policy: Comparison of 2018 and 2019 MFP Programs*.

[66] CRS In Focus IF11764, *U.S. Agricultural Aid in Response to COVID-19*.

[67] For a discussion of U.S. farm support outlays in a WTO context, see CRS Report R46577, *U.S. Farm Support: Outlook for Compliance with WTO Commitments, 2018 to 2020*. For a review of U.S. farm revenue support outlays during the 2014-2020 period, see CRS Report R46561, *U.S. Farm Policy: Revenue Support Program Outlays, 2014-2020*.

WTO Notifications of Domestic Agricultural Support

WTO member countries periodically provide (or "notify") their outlays of domestic agriculture support to the WTO as part of each country's commitments agreed to at the time of the Uruguay Round Agreement on Agriculture (AoA).[68] A primary policy goal of the WTO's AoA was to encourage member countries to shift domestic agricultural policy away from programs that are market and trade distorting and toward non- or less-distorting types of programs (see text box below for examples). The primary purpose of the notification data is to monitor how a country is doing in terms of bringing domestic support for its agricultural sector into compliance with the agreed-upon WTO limits.[69]

WTO Classification of Domestic Support Programs

The World Trade Organization's (WTO's) Agreement on Agriculture (AoA) categorizes and restricts agricultural domestic support programs according to their potential to distort commercial markets. Whenever a program payment influences a producer's behavior, it has the potential to distort markets (i.e., alter the supply and market price of a commodity) from the equilibrium that would otherwise exist in the absence of the program's influence. Those outlays that have the greatest potential to distort agricultural markets are subject to spending limits. In contrast, outlays that cause less market distortion are exempt from spending limits. The WTO uses a modified traffic light analogy to group programs.[70]

- **Amber box** programs, the most market-distorting programs, include payments contingent on participation in agricultural production. They are cumulatively measured by the aggregate measure of support, which includes support for all program areas and all commodities, even those supported through indirect price supports such as tariff-rate import quotas (TRQs). Examples are U.S. price supports for sugar; U.S. marketing loan, Agriculture Risk Coverage, and Price Loss Coverage benefits for grain and oilseed producers; certain crop insurance premium subsidies; and EU common market organization program support via TRQs and intervention purchases of farm products at administratively maintained prices above market prices. Certain amber box outlays may be excluded under the de minimis exemptions (see below). Non-excluded amber box outlays are subject to an annual aggregate spending limit.
- **Blue box** programs are described as market-distorting but production-limiting. These programs are considered less market distorting than amber box programs because of their production limiting aspect. Payments are based on either a fixed area or yield or a fixed number of livestock and are made on 85% or less of historical (i.e., base) production. Examples are EU direct payments to producers based on fixed areas or yields or a fixed number of livestock. There are currently no U.S. blue box programs. Blue box programs are not subject to WTO disciplines or reductions.
- **Green box** programs are minimally or nonmarket distorting. Examples are extension and research programs, environmental program payments, disaster assistance, direct payments to farmers that are not contingent on production, and domestic food assistance programs. Green box payments are not subject to WTO disciplines or reductions.
- **Prohibited (i.e., red box)** programs include certain export and import subsidies and nontariff trade barriers that are not explicitly included in a country's WTO schedule or identified in the WTO legal texts. Such programs are deemed illegal under WTO rules and commitments and must be removed immediately.
- **De minimis (DM) exemptions** apply to spending that is sufficiently small—relative to either the value of a specific product or total production—to be deemed benign and not likely to distort markets and trade. Two types of DM exemptions are available: commodity-specific support (i.e., support that applies to a specific

[68] See CRS Report RL32916, *Agriculture in the WTO: Policy Commitments Made Under the Agreement on Agriculture*.

[69] A major limitation of WTO notification data is the substantial lag in reporting from WTO members. Comparable data on the United States and the EU are available for the 23-year period from 1995 through 2017. During this period, the EU expanded from 15 to 28 members, making the EU historical data over time representative of changing membership. The UK's departure from the EU under Brexit occurred after this data period.

[70] See CRS Report RS20840, *Agriculture in the WTO: Rules and Limits on Domestic Support* (nondistributable but available to congressional clients upon request).

product such as wheat or sugar); and nonproduct-specific support (e.g., irrigation, grazing subsidies, biomass and rural energy programs and certain whole-farm crop insurance premium subsidies). DM exemptions are limited to less than 5% of the value of production (either product-specific or total).[71]

- **Overall trade-distorting domestic support (OTDS)** captures the full extent of market-distorting outlays by aggregating outlays made under the amber box, the two DM exclusions, and the blue box.

Several countries have criticized the considerable exceptions (e.g., blue box and two de minimis exemptions) that have permitted many major agricultural producing countries—including both the United States and the EU—to avoid being restricted by their amber box commitments. During the now-defunct Doha Round of WTO trade negotiations, trade negotiators developed the term *OTDS* in an attempt to assess the full extent of each country's market-distorting policy intervention.

Trade-Distorting Support Has Declined

The Overall Trade-Distorting Domestic Support (OTDS) measure—designed to assess the full extent of each country's market-distorting policy intervention—includes both amber box outlays and spending excluded under the three exemption categories of blue box, product-specific de minimis, and nonproduct-specific de minimis.

Both the EU and the United States have significantly decreased their use of trade-distorting program outlays since the mid-1990s. A comparison of farm program outlays for the periods of 1995-2006 (which roughly represents the pre-policy-reform period) and 2015-2017 (the most recent years for which comparable WTO notification data are available) show that the EU and the United States have greatly reduced market-distorting farm support program outlays (**Table 6** and **Figure 1**).[72] Instead, the EU and the United States increasingly rely on more benign green-box-type programs to support their agricultural sectors.

Based on the notification data, the following trends emerged during the 1995-2006 period:

- The United States averaged $20.4 billion annually in OTDS, including amber box support (that is, in nonexempt, market-distorting support) of $15 billion, with four commodity groups receiving the majority of support: dairy (47%); grains, pulses, and oilseeds (30%); sugar (11%); and cotton (11%).
- EU OTDS and amber box support had much larger annual averages of $95.6 billion and $62.4 billion, respectively. EU commodity payments were more broadly dispersed than U.S. commodity support—spread across dairy, sugar, grains and oilseeds, fruits, vegetables, olive oil, and wine. Unlike in the United States, where fresh and processed fruits and vegetables were largely excluded from market support, these products (along with olive oil and wine) represented 34% of EU amber box outlays. Other EU product sectors receiving substantial amber box support were livestock (19%), grain products (16%), sugar (15%), and dairy (14%).

[71] The United States has relied on use of de minimis exemptions, especially the nonproduct-specific de minimis exemption, to stay within its WTO spending limit. For more information, see CRS Report R46577, *U.S. Farm Support: Outlook for Compliance with WTO Commitments, 2018 to 2020*.

[72] U.S. and EU domestic support notification data reported in **Table 6** and **Figure 1**, as well as the text for this section, have been adjusted for inflation to 2020 dollars (see table and chart notes for details).

Table 6. WTO Notifications of Agricultural Domestic Support: EU vs. United States
(adjusted for inflation to billions of 2020 dollars)

Domestic Agriculture Support Category	U.S. Average		EU Average	
	1995-2006	2015-2017	1995-2006	2015-2017
Amber box[a]	**15.0** (100%)	**4.2 (100%)**	**62.4** (100%)	**8.2** (100%)
Dairy	*7.0 (47%)*	*0.0 (0%)*	*8.8 (14%)*	*5.4 (66%)*
Sugar	*1.6 (11%)*	*1.6 (39%)*	*9.4 (15%)*	*0.0 (0%)*
Grains, pulses, oilseeds	*4.4 (30%)*	*1.4 (34%)*	*10.0 (16%)*	*2.6 (31%)*
Cotton	*1.7 (11%)*	*0.9 (22%)*	*1.0 (2%)*	*0.0 (0%)*
Fruits, vegetables, olive oil, wine	*0.2 (2%)*	*0.2 (6%)*	*21.2 (34%)*	*0.2 (3%)*
Livestock	*0.0 (0%)*	*0.0 (0%)*	*12.0 (19%)*	*0.0 (0%)*
Amber de minimis	**6.6**	**13.5**	**1.8**	**2.7**
Product-specific	*0.4*	*5.5*	*1.2*	*1.1*
Nonproduct-specific	*6.1*	*8.0*	*0.6*	*1.6*
Blue box	**0.4**	**0.0**	**31.4**	**5.4**
OTDS	**22.0** (22%)	**17.7 (12%)**	**95.6** (71%)	**16.3** (18%)
Green box	**80.0** (78%)	**127.5** (88%)	**39.4** (29%)	**73.5** (82%)
General services	*11.4*	*13.4*	*8.6*	*7.3*
Public stockholding for food security	*0.0*	*0.0*	*0.0*	*0.0*
Domestic food aid	*56.2*	*108.9*	*0.5*	*1.4*
Decoupled income support	*7.2*	*0.2*	*6.1*	*34.7*
Income insurance and safety-net programs	*0.0*	*0.0*	*0.0*	*0.2*
Payments for relief from natural disasters	*1.7*	*0.2*	*0.7*	*0.7*
Structural adj.: product retirement programs	*0.0*	*0.0*	*1.1*	*0.3*
Structural adj.: resource retirement programs	*1.4*	*0.0*	*0.7*	*0.1*
Structural adj.: investment aids	*0.2*	*0.1*	*9.0*	*5.4*
Environment payments	*1.9*	*4.8*	*7.5*	*9.0*
Payments under regional assistance programs	*0.0*	*0.0*	*4.4*	*5.2*
Other	*0.0*	*0.0*	*0.8*	*9.2*
OTDS + Green box	**102.0** (100%)	**145.2** (100%)	**134.9** (100%)	**89.8** (100%)

Source: CRS calculations based on EU and U.S. notifications of domestic support for agriculture. See WTO, "WTO Documents Online," at https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S005.aspx.

Notes: OTDS = Overall Trade-Distorting Domestic Support; adj. = adjustment. Totals may not sum due to rounding. EU values are converted using euro exchange rates compiled by USDA's Economic Research Service. U.S. dollars are deflated to 2020 dollars using the GDP Implicit Price Deflator, Bureau of Economic Analysis, Department of Commerce. Euros are deflated to 2020 dollars by the Harmonized Indices of Consumer Prices, *Eurostat*.

a. These figures represent both taxpayer-paid subsidies in the form of direct payments and consumer-paid subsidies, such as the U.S. sugar program, which support the domestic price of refined sugar above international market prices through import quotas.

By 2015-2017, policy changes had lowered market-distorting farm program outlays for both the EU and the United States:

- U.S. annual average OTDS and amber box support had declined to $11.5 billion (-44%) and $4.3 billion (-71%), respectively. Dairy, sugar, and grains and oilseed programs continued to dominate support, with a drop-off in support to cotton.
- Similarly in the EU, annual average OTDS and amber box support had declined to $16.3 billion (-83%) and $8.2 billion (-87%), respectively. Amber box support had shifted almost entirely to the dairy (66%) and grain and oilseeds (31%) sectors, while support to fruits, vegetables, olive oil, and wine (3%) had declined sharply, and support for sugar, cotton, and livestock had fallen to zero (0%).

Green Box Spending Has Expanded

For both the United States and the EU, the bulk of agricultural support is now green box programs (i.e., minimally market distorting and not subject to WTO disciplines).

- U.S. green box support has risen from an 80% share of total support (i.e., OTDS plus green box) during 1995-2006 to a 92% share in 2015-2017. In the United States, the single largest component of green box outlays is domestic food aid, which averaged $108.9 billion and accounted for 83% of green box spending (in 2020 dollars) during 2015-2017.
- Green box outlays have risen more sharply in the EU, from a 29% share of total support to an 82% share over the two periods. In the EU, decoupled direct payments accounted for 47% of green box spending, with environmental payments (12%), general services (10%), structural adjustment investment aids (7%), and regional assistance programs (7%) as important recipients.

Rural development outlays may be approximated by combining payments under the green box categories of "regional assistance programs" and "investment aids." EU average outlays for rural development of $13.4 billion and $10.6 billion for the two time periods are much larger compared with the U.S. average outlays of $0.2 billion and $0.1 billion. This does not provide a comprehensive accounting of rural development outlays, but it does suggest that EU rural development spending is substantially larger than its counterpart U.S. outlays.

The United States Exceeds the EU in Combined Overall Trade-Distorting Domestic Support and Green Box Outlays

Combining OTDS with green box outlays provides a very broad, inclusive definition of support for the agricultural sector—one that encompasses rural development and consumer nutrition assistance along with producer support. Using this broad measure, EU annual average spending

has decreased nearly 33% in real terms (2020 dollars) to $89.8 billion in 2015-2017, compared with $134.9 billion in 1995-2006 (**Table 6**).

U.S. outlays for the combined OTDS-green box measure have grown faster and are larger at $139 billion in 2015-2017. As mentioned earlier, domestic food assistance accounts for a large share of U.S. green box support, 85% compared with a 2% share in the EU. In contrast, the EU provides more support for both environmental and rural development programs under the green box than the United States.

The OTDS for the EU and United States has declined since the late 1990s, although the EU's decline is much stronger and reflects the EU's significant drop-off in use of both amber box and blue box programs (**Figure 1**).

- In the United States, a 46% increase in the use of de minimis exclusions (rising from a combined annual average of $5.0 billion in 1995-2006 to $7.3 billion by 2015-2017) partially offsets the decline in amber box spending. For the United States, the OTDS peaked at $36.1 billion in 1999 (in 2020 dollars) but has declined since then and averaged $11.5 billion in 2015-2017.
- In contrast, because of its policy reforms, the EU's OTDS has declined from a peak of $143.0 billion (2020 dollars) in 1995 to an annual average of $16.3 billion in 2015-2017. In addition to the decreased use of amber box programs, the EU decreased its use of the blue box exemption by 83%, from an annual average of $31.4 billion in 1995-2006 to $5.4 billion in 2015-2017.

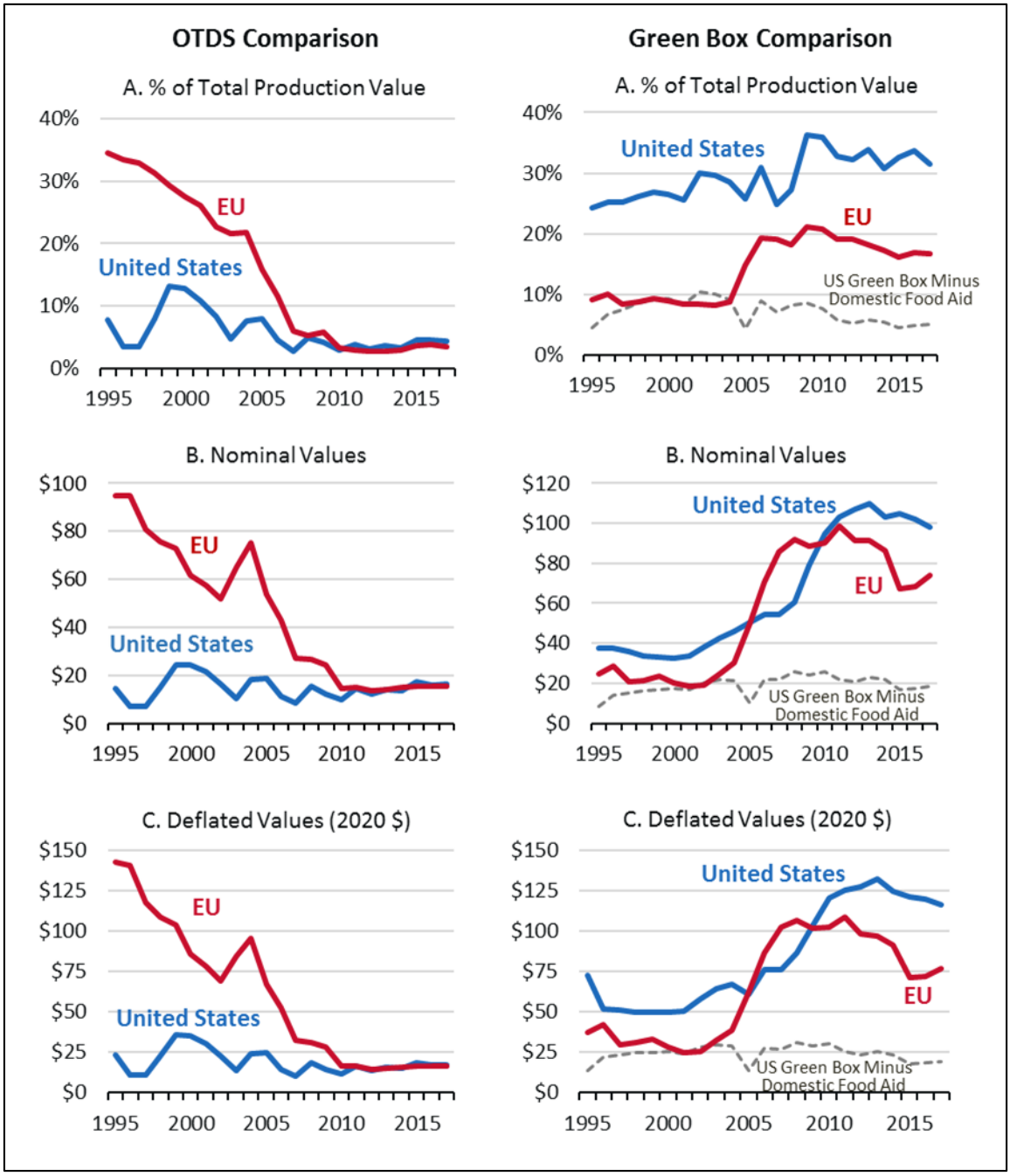
Recent Policy Changes and WTO Notification Prospects

Policy changes instituted or proposed since 2018—that is, under the European Commission's 2018 proposed CAP reform and the 2018 U.S. farm bill—are not expected to significantly change spending levels and associated WTO notifications for either entity.[73] However, large-scale ad hoc payments made by the United States during 2018 and 2019 in response to trade disputes, and in 2020 in response to food chain disruptions associated with the COVID-19 pandemic, could result in substantial increases in U.S. domestic support notifications—particularly market-distorting-type outlays—to the WTO starting in 2018.[74] In contrast, the commission's proposed CAP reforms for 2021-2027 would appear likely to increase the green box's share of CAP outlays at the expense of OTDS outlays.

[73] The UK's departure will reduce EU-27 CAP outlays; otherwise, the expected decline in outlays for the 2021-2027 period is expected to be relatively small at 2.8%, as discussed earlier in this report.

[74] The United States has already notified its domestic support outlays for 2018 (G/AG/N/USA/150; April 8, 2021), and the large ad hoc payments in that year pushed amber box and OTDS outlays substantially higher, to $13.5 billion and $26.7 billion, respectively. For details on how the ad hoc programs of 2018 through 2020 might affect U.S. notification of domestic support outlays to the WTO, see CRS Report R46577, *U.S. Farm Support: Outlook for Compliance with WTO Commitments, 2018 to 2020*.

Figure 1. OTDS and Green Box Comparisons



Source: CRS calculations based on annual WTO notifications of domestic support for agriculture. WTO, "WTO Documents Online," at https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S005.aspx.

Notes: OTDS = Overall Trade-Distorting Domestic Support; includes all market-distorting support outlays—amber box, blue box, and de minimis exemptions. Green box support is minimally or nonmarket-distorting. Three chart categories include (A) as a % of total production value, (B) nominal dollars as notified to the WTO for each individual year, and (C) deflated to 2020 dollars. U.S. dollars are deflated using the Consumer Price Index, Bureau of Labor Statistics. Euros are converted to dollars using exchange rates compiled by USDA's ERS then deflated by the Harmonized Indices of Consumer Prices, *Eurostat*, 1995-2020.

Organisation for Economic Co-operation Development Estimates of Agricultural Support

An inherent weakness in WTO member notification data is that each country may identify and categorize its various support program outlays according to its own interpretation (rightly or wrongly) of the WTO criteria on domestic support.[75] An alternate source of data for evaluating farm program support among major developed economies is the OECD's policy database.[76] OECD data describe and evaluate agricultural policies in each of the OECD countries and are compiled by an independent team of policy analysts using a common set of policy measures that include both direct and implicit types of support.[77]

OECD's Agricultural Policy Measures

Organisation for Economic Co-operation and Development (OECD) analysts have developed a methodology to evaluate and classify the various types of agricultural support programs of major developed countries in a consistent fashion across countries and over time.[78] OECD classifies public transfers to producers and consumers of agricultural products into three separate categories—producer, general services, and consumer support—which cumulatively produce the total support estimate.

While the data are initially available as values (expressed in units of each country's domestic currency), OECD also expresses the support measures as a percentage of the value of gross farm output to avoid the issues associated with exchange rate fluctuations when making comparisons of agricultural support across countries.

(1) Producer Support Estimate (PSE)

The PSE reflects the annual monetary value of all policy measures (explicit and implicit), measured at farm gate, that support agricultural producers. The PSE includes

- production-based support, such as commodity price supports, payments related to input use (including, for example, crop insurance premiums), and payments based on various current production measures, including area planted, animal numbers, receipts, and income; and
- payments where no production is required, such as those based on historical criteria or on other noncommodity criteria, such as long-term resource retirement; thus, the PSE measure includes decoupled direct payments and most conservation payments that support enhancements to farmland.

(2) General Services Support Estimate (GSSE)

The GSSE measures the annual monetary value of support, measured at the farm gate, that benefits the agricultural sector in general but does not include payments to individual producers. For example, the GSSE includes payments made for extension, research and development, infrastructure, marketing and promotion of agricultural products, public stockholding, training, and inspection services. GSSE outlays are similar to the WTO's green box category of spending but without domestic food assistance, which is included with consumer support.

(3) Consumer Support Estimate (CSE)

[75] Such notifications are allowed unless successfully challenged by another country under the WTO dispute settlement process.

[76] OECD is an intergovernmental economic organization with 37 member countries, founded in 1961, to stimulate economic progress and world trade. OECD collaborates with governments and policymakers to evaluate policy solutions to a range of social, economic, and environmental challenges and to establish evidence-based international standards.

[77] A further advantage of OECD's policy data is that such data extends from 1986 to 2019, allowing for a longer historical perspective than is available from WTO notification data (1995-2017). The OECD agricultural policy data set includes data from 15 OECD-member economies: Australia, Canada, Chile, Colombia, EU, Iceland, Israel, Japan, South Korea, Mexico, New Zealand, Norway, Switzerland, Turkey, and the United States; as well as 12 non-OECD member economies: Argentina, Brazil, China, Costa Rica, India, Indonesia, Kazakhstan, Philippines, Russia, South Africa, Ukraine, and Vietnam. OECD, OECD Data, "Agricultural Support," at https://data.oecd.org/agrpolicy/agricultural-support.htm.

[78] For example, see OECD, *Agricultural Policy Monitoring and Evaluation 2020* (Paris: OECD Publishing, 2020), at https://doi.org/10.1787/928181a8-en.

The CSE measures the annual monetary value of support, measured at the farm gate, to consumers of agricultural products. On the positive side, the CSE includes domestic food assistance (e.g., the Supplemental Nutrition Assistance Program or SNAP) and nutrition programs that facilitate access to food for lower-income households. If negative, the CSE measures the burden (implicit tax) on consumers through high internal producer-support prices or import barriers that tend to raise consumer food prices and that may more than offset any consumer subsidies.

Total Support Estimate (TSE)

The TSE measures the annual monetary value of all gross transfers from taxpayers and consumers arising from policy measures that support agriculture, net of the associated budgetary receipts, regardless of their objectives and impacts on farm production and income or consumption of farm products.

Producer Support Estimate Percentage Declining for the United States and EU

The principal OECD measure of potentially market-distorting agricultural support to producers is the PSE—described in the box, above. Reforms to U.S. and EU agricultural policy since the 1986-1988 period—which were precipitated in part by internal budget pressures and the widespread acceptance of the rules and standards for domestic support detailed in the WTO's AoA[79]—have considerably reduced the level of producer support in both regions.

With respect to U.S. and EU agricultural support, general conclusions based on OECD PSE data include the following (**Figure 2**, top chart):

- The PSE value, expressed as a percent of the gross farm receipts, has trended lower for both the United States and the EU from the late 1980s.
- During 1986-1988, the EU's PSE averaged 38.5% of gross farm receipts. By 2014, it had declined to 17.4% but has since tracked in the 18%-19% range.
- During 1986-1988, the U.S. PSE averaged 20.6% of gross farm receipts. It peaked at 23.3% in 1999 when low market prices pushed countercyclical program payments up; these were supplemented by large ad hoc emergency assistance payments. Since 1999, the U.S. PSE share steadily declined to a low of 6.7% in 2013 before rising gradually to 12.1% in 2019.
- From 2015 to 2019, the PSE for the EU averaged 19.2%, nearly double the average PSE for the United States of 10.0%. Thus, despite the substantial decline in PSE support levels, the EU still supports agriculture at about double the rate of the United States when measured as a share of gross farm receipts.

General Services Support Estimates Percentages Have Been Small and Stable

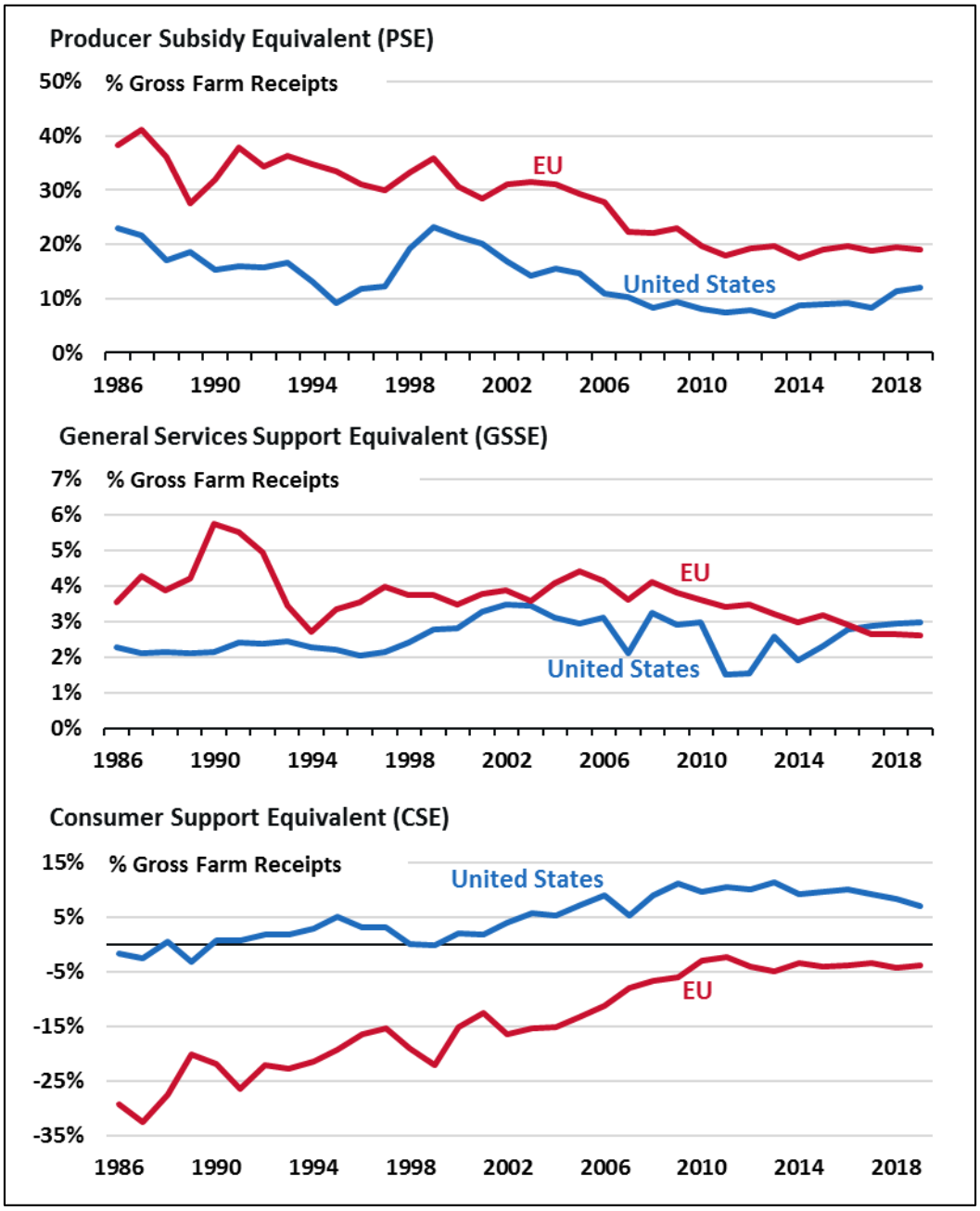
General services support estimates (GSSE) include outlays for extension, research and development, infrastructure, marketing and promotion of agricultural products, public stockholding, training, and inspection services. From 1986 to 2018, GSSE outlays remained small relative to the respective farm economies for the EU and United States, staying largely within a narrow band of 2% to 5% when expressed as a share of gross farm receipts (**Figure 2**, middle chart).

- Since 2010, the EU's GSSE share has averaged 3.1% of gross farm receipts, compared with a 2.4% average share for the United States.

[79] See CRS Report RS20840, *Agriculture in the WTO: Rules and Limits on Domestic Support* (nondistributable but available to congressional clients upon request).

Figure 2. OECD Subsidy Equivalents: EU vs. United States

(subsidy equivalents expressed as a % of gross farm receipts)



Source: OECD, OECD Data, "Agricultural Support," at https://data.oecd.org/agrpolicy/agricultural-support.htm.

Notes: The PSE includes the annual monetary value of all support, direct and implicit, to agricultural producers. The GSSE measures support that benefits the agricultural sector in general but does not include payments to individual producers. The CSE measures support to consumers of agricultural products. If negative, the CSE measures the burden (implicit tax) on consumers. All values are at the farm gate.

The EU Taxes and the United States Supports Consumers of Agricultural Products

The Consumer Subsidy Equivalent (CSE) measures the annual monetary value of support, measured at the farm gate, to consumers of agricultural products. The CSE has been expressed as a share of gross farm receipts to facilitate comparison (**Figure 2**, bottom chart). If positive, the CSE includes domestic food assistance and nutrition programs that facilitate access to food for lower-income households. If negative, the CSE measures the burden (implicit tax) on consumers through high, internal producer-support prices or import barriers that tend to raise consumer food prices and that may more than offset any consumer subsidies.

Since the mid-1990s, U.S. consumers have benefited from government agricultural supports that have contributed, on net, to lower consumer prices and widespread access to domestic production and imports. Such policies include those that have incentivized greater food production, lowered trade barriers, and targeted certain population subgroups for greater access to food through nutrition programs.

- Since 2000, the U.S. CSE has been positive. It trended steadily higher to an 11.5% share of gross farm receipts in 2013, before slowly declining to a 7.1% share in 2019.
- In contrast, the EU's CSE has measured negative over the entire 1986-2019 period. Thus, EU consumers have, on net, helped to underwrite subsidy transfers to their agricultural sector.
- Although negative, the EU's CSE has trended upward (or been less negative), from a low of -32.5% when expressed as a share of gross farm receipts in 1987 to a high of -2.3% in 2011.
- Since 2015, the U.S. CSE has averaged 8.9% of gross farm receipts, compared with an average share of -3.8% for the EU.

EU Reforms Have Fostered Near Parity Between Internal and Border Prices

OECD calculates a "nominal protection coefficient" that provides an indication of the degree to which a country is open to international market conditions (**Figure 3**). The coefficient is a ratio of the domestic support price to the international price at the border—the closer the ratio is to 1.0, the more open the country's markets.

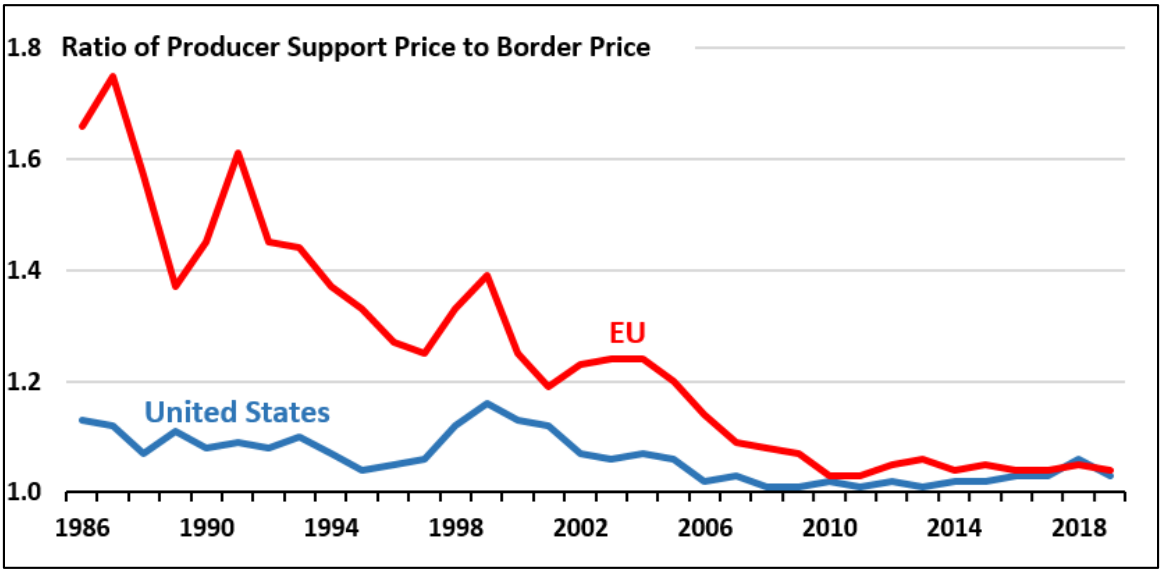
The United States maintains relatively open borders for trade, with the exception of two major commodities that are protected by tariff-rate import quotas (TRQs): sugar and dairy products.

Since the late 1980s, the EU has progressively reduced domestic market price-triggered support and protection at the borders and increased decoupled direct payments to farmers, thus allowing producers to better respond to global market signals.

- In 1987, EU farm prices exceeded world market prices by 75%—that is, a nominal protection coefficient of 1.75. However, the EU's high level of internal support has declined substantially since then.
- The EU's market access for agricultural products has generally improved since the 1980s through bilateral agreements and lower applied tariffs. The end of the EU's milk production quota in 2015 and the sugar quota in 2017 were important steps in this direction.

- Since 2016, domestic prices for most EU commodities have been closely aligned with border prices, and the nominal protection coefficient for both the EU and the United States has averaged 1.04.

Figure 3. The Producer's Nominal Protection Coefficient: EU vs. United States



Source: OECD, OECD Data, "Agricultural Support," at https://data.oecd.org/agrpolicy/agricultural-support.htm.

Notes: The nominal protection coefficient shows how much protection domestic support prices provide above world prices. A ratio of 1.0 implies equity, whereas a ratio greater than 1.0 signifies protection.

Conclusion

The EU is one of the United States' chief agricultural trading partners and a major competitor in world food markets. Both the EU and the United States heavily support their agricultural sectors. At the same time, strong budgetary pressures coupled with a shifting policy preference toward greater market orientation have motivated the United States and the EU to modify their farm programs since the 1980s. Traditional price and income support programs that had the potential to distort commodity markets have been progressively replaced by support that is decoupled from production or prices.

Many in Congress have historically defended U.S. farm support programs as a means to ensure that the United States has continued access to the "world's safest, highest quality, and most abundant food supply."[80] European defenders of the CAP have made similar arguments for state-sanctioned intervention in the agricultural sector. For others, long-standing criticisms and continued debate have challenged the extent of and need for government support of farm programs. Some argue that decisions by the United States and the EU not to enact substantial reform to their respective farm support programs during the 1990s and early 2000s contributed to delays in the now defunct WTO Doha Round of multilateral trade negotiations.[81]

[80] For example, Rep. Mike Conway, Chairman of the House Agriculture Committee, "The livelihood and lifeblood of rural America," *Bloomberg*, June 6, 2016, at http://about.bgov.com/blog/the-livelihood-and-lifeblood-of-rural-america/.

[81] CRS Report RS22927, *WTO Doha Round: Implications for U.S. Agriculture*.

Now, in the face of looming environmental and climate concerns, many policymakers are looking for ways to reorient farm policy to address multiple challenges simultaneously, while ensuring that natural resources are used wisely and complying with international trade commitments. The United States and the EU figure dominantly in the development and use of agricultural policy on the global level. Information about new policy approaches and comparisons of EU and U.S. farm support programs may continue to be of interest to Congress as the United States prepares for another round of domestic farm bill negotiations and continues to engage in international trade negotiations on several fronts.

Summary of Policy Comparisons

Since the mid-1990s, as a general trend, total farm sector support (excluding domestic food aid) has declined substantially in both the United States and the EU (as described below and shown in **Table 6** and in **Figure 1**, **Figure 2**, and **Figure 3**). When domestic food aid is included, overall U.S. agricultural support has increased substantially relative to both the 1995-2006 period and to the EU.

Several observations that emerge from a comparison of farm support based on available data from the WTO and OECD include the following:

- Historically, the United States has used less OTDS than the EU. However, in recent years the EU has made substantial reductions in the volume of its trade-distorting support, bringing it at parity with the United States since 2010 (**Figure 1**, charts A, B, and C on the left-hand side).
- In the EU and the United States, support for less-distorting noncommodity-type programs (i.e., green box)—for example, conservation, rural development, agroforestry, nutrition, and bioenergy—has increased substantially and now accounts for a majority share of total farm support (**Table 6**).
- Since 2012, the United States has spent substantially more than the EU on green box programs (i.e., less-distorting noncommodity-type programs). When expressed as a share of total production value, U.S. green box outlays are nearly double those of the EU (32% versus 17%); however, when domestic food aid is excluded, then the U.S. share is about one-third that of the EU (5% versus 17%) (**Figure 1**, chart A on right-hand side).
- When measured in terms of PSE and reported as a share of total gross farm receipts, support for market-distorting commodity programs has decreased for the EU and the United States, but the EU's share remains substantially higher than the U.S. share, at 19% versus 12% (**Figure 2**, top chart).
- With respect to general services support outlays (such as extension, research, and infrastructure), the EU and the United States provide similar levels of support when expressed as a share of total gross farm receipts (**Figure 2**, middle chart).
- U.S. consumers have received net benefits from agriculture-based support programs (especially from domestic food aid programs such as the Supplemental Nutrition Assistance Program or SNAP). In contrast, EU consumers have generally transferred more support to agricultural producers than has been received in offsetting benefits (i.e., the EU's consumer subsidy estimate is negative), although the net transfer has been declining over time as a share of gross farm receipts (**Figure 2**, bottom chart).

- The decline in the EU's use of trade-distorting policy support measures is seen by a decline since the mid-1980s in the difference between internal EU support prices and the international market price—referred to as "nominal border protection" (**Figure 3**).
- Large-scale ad hoc payments made by the United States during 2018 and 2019 in response to trade disputes, and in 2020 in response to food chain disruptions associated with the COVID-19 pandemic, could result in substantial increases in U.S. domestic support notifications—particularly market-distorting-type outlays—to the WTO starting in 2018. In contrast, the commission's proposed CAP reforms for 2021-2027 could increase the green box's share of CAP outlays at the expense of OTDS outlays.

Policy Implications

The European Commission's proposed CAP reforms appear to make substantial adjustments to the EU's agricultural policy framework to address growing environmental and climate concerns with policy benefits linked strongly to specific environmental and climate targets. Details on implementation, measurement, and enforcement have yet to be finalized, and the potential for effectively achieving the environmental and climate goals have yet to be demonstrated. If successful, the EU's CAP reforms could provide a comparison for other countries seeking to make progress in a similar direction. On the other hand, concerns are emerging about the potential for EU environmental and climate requirements to spill over into international markets and potentially affect U.S. agricultural exports to the EU and elsewhere. Thus, Congress may be interested in closely monitoring the successes and failures of the EU—as well as the potential for unintended consequences—as it continues to engage in international trade negotiations and prepares for another round of domestic farm bill negotiations when the current farm bill expires in 2023.

Appendix. The Common Agricultural Policy Basic Payment Scheme

The 2018 Common Agricultural Policy (CAP) reform proposed by the European Commission would retain many of the specific program features of the previous CAP. During the transition period (2021 and 2022, as described in "CAP Reform Beyond 2020"), most of these CAP features remain in effect.

The 2013 CAP reform created the Basic Payment Scheme (BPS) to replace the Single Area Payment Scheme (SAPS). The BPS has expanded targeting of payments that can occur under seven potential components (**Figure A-1** and **Table A-1**)—whose use may vary at the discretion of individual member states.[82] These seven components are listed below.

1. **BPS.** The BPS is the primary component of the CAP's Pillar I. It involves a basic payment per hectare, the level of which is to be harmonized according to an external payment convergence to reduce disparities in the level of direct payments between member states[83] (and set a minimum national average direct payment per hectare across all members by 2020) and an internal payment convergence requirement to reduce disparities within countries and regions.[84] The BPS is also subject to *degressivity*—a mandatory minimum 5% reduction applied to total BPS support above €150,000 per recipient.[85]
2. **Green Payment.** The green payment provides additional support to offset the cost of providing environmental public goods not remunerated by the market. The CAP requires that 30% of Pillar I funds be used for per-hectare payments conditional on three farming practices (referred to as "greening"): (i) a minimum of 5% of a farm's land is converted to an Ecological Focus Areas;[86] (ii) maintenance of permanent grasslands;[87] and (iii) crop diversification on arable land with multi-crop requirements increasing with farm size.[88]
3. **Young Farmer Scheme.** This scheme encourages generational renewal by supplementing the basic payment with an additional payment (using up to 2% of

[82] European Commission, DG for Agriculture and Rural Development, "CAP Explained Direct Payments For Farmers 2015-2020," May 2017, at https://op.europa.eu/en/publication-detail/-/publication/541f0184-759e-11e7-b2f2-01aa75ed71a1; see also "Income Support," at https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/income-support.

[83] Countries receiving less than 90% of the EU average basic payment are to gradually receive more from 2015 onwards, and those receiving more than the EU average are to see a gradual cut in payments. By 2020, a minimum average basic payment of €196 per hectare should be reached by all member states.

[84] For details, see European Commission, *Direct Payments: the Basic Payment Scheme from 2015: Convergence of the value of payment entitlements ('Internal Convergence')*, December 2015, at https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/internal-convergence_en.pdf.

[85] Member states may augment the above-threshold reductions. OECD, *Policy Monitor 2015*, p. 140.

[86] A list of practices considered equivalent to the Ecological Focus Area exists at the EU level. OECD, *Policy Monitor 2015*, p. 139.

[87] The European Commission defines *permanent grassland* as land that has been in grass for more than five years. The ratio of permanent grassland to the total agricultural area should not decrease by more than 5% at the national level.

[88] This condition introduces a requirement to produce. Farms with less than 10 hectares are exempt, larger farms between 10 and 30 hectares must grow at least two crops, and farms larger than 30 hectares must produce at least three crops.

the national direct payment budget) for a maximum of five years for new young farmers (i.e., under 40 and beginning an agricultural activity).

4. **Payments for Areas with Natural Constraints.**[89] Such payments make additional income support available (using up to 5% of the national direct payment budget) to overcome natural resource constraints defined based on eight biophysical criteria.
5. **Small Farmers Scheme.**[90] Small farmers are eligible for additional payments of up to €1,250 per farm (not to exceed 10% of the national direct payment budget). Greening requirements and cross compliance restrictions also are waived.
6. **Voluntary Coupled Support.** In the form of commodity-specific payments, voluntary coupled support is available for up to 18 products or product groups for certain areas or types of farming for economic, environmental, and/or social reasons (up to 13% of the national direct payment budget, with the possibility of providing an additional 2% of coupled support for protein crops).
7. **Redistributive Payment.** Certain member states may grant redistributive payments—that is, higher payments on the first hectares of farmland to meet certain national goals. Such payments may be supportive of smaller farming operations, for example.

The first three components are compulsory for member states, and the last four are optional (**Table A-1**). Member states are required to use 30% of their national direct payment allocations to fund the greening component; the remaining 70% is to be used to fund the basic payment component, subject to deductions of any amounts earmarked for the other potential components listed above.

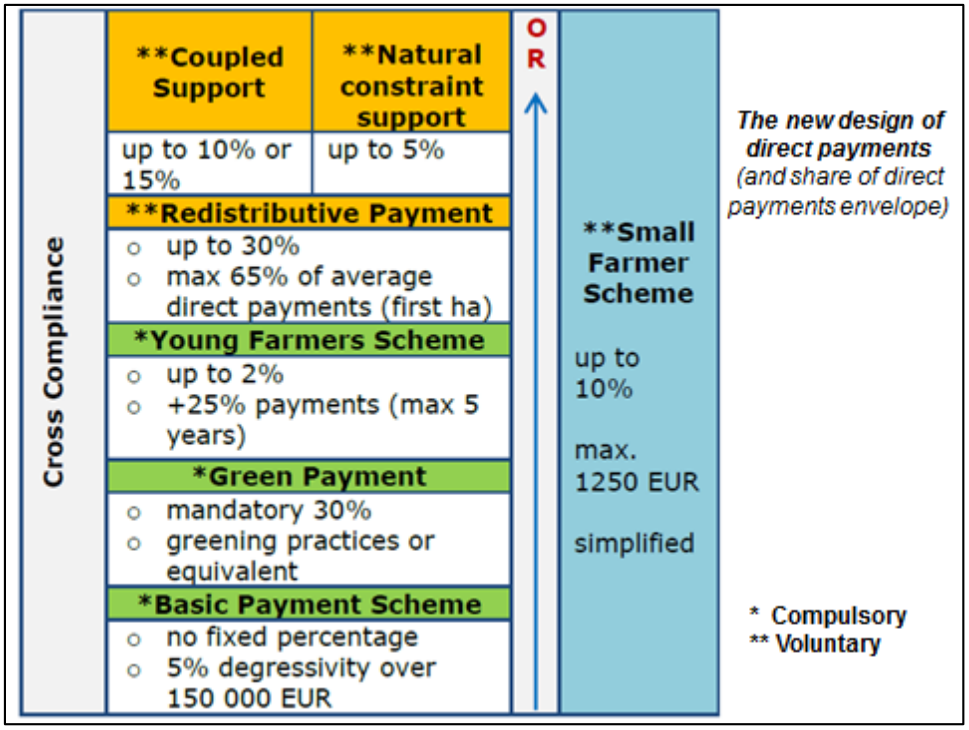
Under the 2013 reforms, the per-farm total BPS payments are also subject to degressivity—that is, a mandatory minimum 5% reduction applied to total BPS support above €150,000 per recipient.[91] Sixteen member states have applied the minimum 5% reduction. Nine member states have applied the 5% reduction after the value of salaries paid is deducted from the total BPS. Nine member states have applied higher percentage reductions—some reaching as high as 100%, resulting in a full capping of the BPS at levels varying from €150,000 to €600,000 per recipient.

[89] Only a single member state has opted for this additional payment using 0.2% of its national direct payment budget.

[90] No strict definition of *small farmer* is provided. The actual size of the holding does not matter as long as the farmer has an eligible area under the Basic Payment Scheme or Single Area Payment Scheme. See European Commission, "The Small Farmers Scheme," May 2017, at https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/small-farmers-scheme_en.pdf.

[91] OECD, *Policy Monitor 2015*, p. 140.

Figure A-1. CAP Direct Payments with Components, CAP 2014-2020



Source: European Commission, DG for Agriculture and Rural Development, "Overview of CAP Reform 2014-2020," *Agricultural Policy Perspectives Brief*, no. 5, December 2013.

Table A-1. CAP 2014-2020 Direct Payments (DP): Seven Potential Components

DP Policy Requirement	Share in National DP Budget	Member States
Mandatory Schemes[a]		
1- Basic Payment per Hectare (BPS or SAPS)	DP budget minus sum of rows below (55% of overall DP budget)	All
2- Greening	30%	All
3- Young farmers scheme	≤ 2%	All
Voluntary Schemes		
4- Areas with natural constraints	≤ 5%	1
5- Small farmer scheme	≤ 10%	15
6- Commodity specific payments[b]	0-15% and up to 57% (10% of overall DP budget)	27
7- Redistributive payments	≤ 30%	8

Source: European Commission, DG for Agriculture and Rural Development, as reproduced from OECD, "Table 9.3. Direct payments in the CAP 2014-20," in *Policy Monitor 2015*, p. 139.

Notes: BPS = basic payment scheme; SAPS = single area payment scheme.

a. Failure to comply with mandatory schemes will result in penalties.

b. Four member states received approval to exceed the ceiling of 15% set for commodity-specific payments from budget year 2015 onward.

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