

## **CAP Policy Post 2013**

**Remarks by Professor Gerry Boyle, Director Teagasc, in response to the contribution of Professor Louis Pascal Mahe at the Teagasc Outlook 2010 Conference, The Heritage Hotel, Portlaoise, January 15<sup>th</sup> 2010<sup>1</sup>**

### **Reform of the Single Farm Payment - Context**

Direct payments were worth €1.8 billion to Irish agriculture in 2009. The bulk of these payments (about €1.2 billion) were accounted for by the Single Farm Payment (SFP). In 2009 without these payments Irish agriculture would have made a loss of about €600 million!

Last year on average Irish farmers received about €8,000 - €9,000 in direct payments, while the average income for all farmers was only €12,000.

The key message is therefore that DPs and especially SFPs matter hugely to Irish agriculture and consequently the stakes are exceptionally high in the upcoming negotiations.

Professor Mahe points out that SFPs are the principal instrument in the achievement of the objectives of the CAP. The benefit of SFPs should therefore be assessed in relation to how they are succeeding in achieving the objectives of the CAP. The objectives of the CAP as set out in the Treaty of Rome are, to increase productivity; to ensure a fair standard of living for farmers; to stabilize markets; to assure the availability of supplies; and to ensure that supplies reach consumers at reasonable prices. Professor Mahe argues that not all of these objectives are still of importance and, in particular, he refers to the “demise” of the “income support” and “price stability” objectives.

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<sup>1</sup> These remarks are largely in response to a paper by J.C. Bureau and L.P. Mahe entitled “CAP Payments After 2013: A Concept for Rural Public Goods” that was presented to a Workshop of the Bureau of European Policy Advisers of the European Commission held in Brussels on February 29<sup>th</sup> 2009. I would like to acknowledge the assistance of my colleague, Dr Kevin Hanrahan, in the preparation of these remarks but the views expressed are my own responsibility.

SFPs in my view address all of these objectives, maybe imperfectly, and many of these objectives subsume more recently articulated objectives such as the promotion of “food security” and the lessening of “price volatility”. Indeed Professor Mahe does recognize that SFPs are an important buffer against price instability. Farmers would be naive to abandon SFPs without an equally effective buffer being provided through some other measure.

Professor Mahe provocatively argues that the “compensatory logic” for SFPs is now obsolete and indeed he refers with irony to the “original sin of compensation”. For Ireland this however is a key principle and it is still a valid principle. It was a key principle in the MacSharry Reforms and in many ways represented the political genius of the MacSharry proposals. The principle may have to be adapted for the current economic climate but that doesn’t invalidate its relevance and centrality to the debate on the future of SFPs.

Professor Mahe argues that the SFPs have lost any defensible foundation in so far as:

- the income distribution effects are inequitable
- there is no direct reward for the production of public goods and services (e.g. pertaining to the environment)
- the environment may be indirectly affected through “cross compliance” but at enormous compliance costs for both administrators and farmers. (This is one view of Professor Mahe that would find widespread acceptance in Ireland.)
- SFPs can contradict Pillar II measures
- tensions have been generated between members states arising from financial imbalances.

Professor Mahe, along with many policy analysts, assesses SFPs relative to a number of basic criteria or principles:

- adequacy and effectiveness of targeting
- returns to public investment
- preference for incentivization versus assistance

### **Some Possible SFP Reform Models**

A number of reforms to the current system of SFPs have been mooted. These reforms could be broadly classed into two categories, namely,

- the MTR model which proposes an abandonment of the historical basis for the SFP and its replacement by a “flat rate” system on a regional or EU-wide basis
- more radical models which propose to change the basis for the payments entirely.

Professor Mahe’s proposals fall into the latter category.

The MTR-type reforms would have very serious implications for Ireland. As is well known if an EU-wide system were adopted the country as a whole would lose out substantially. Teagasc has undertaken some initial research on the impact of the adoption of the “flat-rate” system within Ireland. If we were to imagine a line drawn from Carlingford Lough down to the Shannon Estuary, the most intensive gainers under the current SFP system lie below this line and the less intensive gainers lie above this line. A “flat-rate” system would see a virtual flip over in terms of gainers and losers. In terms of raw numbers our research suggests that about 53% would gain and about 47% would lose. The losers would be the more intensive producers while the gainers are the more extensive producers. In fact, nearly a quarter of producers would lose between 20% and 50% of their existing level of SFP while 25% would see their payments increase by about 50%.

This model of reform presents huge, if not insurmountable, implementation difficulties of a political economy nature and indeed Professor Mahe suggests

that for these and other reasons the model is unlikely to be adopted. Experience has shown across many policy areas that a major reform of the scale contemplated here would be unlikely to gain broad political acceptance unless no one is rendered worse off than their current situation. In the context of the suggested “Flat-rate” system this would imply a substantial increase in the overall agricultural budget.

Even if we set aside this massive difficulty it is very difficult to see what could be attractive about such a model, since

- the reform won't reduce the overall size of the agricultural budget and hence resources will not be available for other areas
- it wouldn't support new requirements of policy pertaining to “food security”, “price volatility”, “climate change”, “competitiveness”, “innovativeness” and so on
- it is not obvious how this type of reform could improve on the equity of the current regime

Professor Mahe's proposed reform takes a completely different tack. Motivated by a need to “... get rid of the outdated logic of compensation” to be replaced by the logic of “incentive to provide services”, Professor Mahe proposes a radical “reshuffling” of SFPs involving the replacement of the current model by a three-level “contractual payment scheme” (CPS). This scheme would involve three types of payment:

- a basic husbandry payment designed to maintain the agricultural landscape
- a payment for areas of natural handicap
- a targeted payment to environmentally sensitive or valuable areas

This “contractual payments scheme” does exactly “what it says on the tin”. Payments would be time bound and probably paid on an area basis. Payments would not be attached to land and entitlements would cease with

the termination of the service contract. In no sense would entitlements to these payments be tradable or inheritable.

From the perspective of a beneficiary of the existing SFP the crucial question is the level of payment that is likely under this radical measure. Of course it is impossible to say but Louis does admit that the payment would be "... far less from being close to the SFP per ha" that applies at present!

All of the variants of the SFP that I've set out above involve direct transfers to producers. There is, however, a reform model that proposes a more indirect approach to supporting producers. This model suggests the channelling of additional resources to support innovation and the adoption of technology designed to enhance the competitiveness of the agricultural sector and thus the improvement of farm incomes.

Given my role as Director of Teagasc, while I would naturally welcome such a model (!), it seems to me likely to fail on political economy grounds, albeit for different reasons to the MTR-type reform. The problem is not one of "gainers" versus "losers" but of a switch from "direct" to indirect" support. Producers would naturally be very sceptical that they would receive anything close to their existing level of payments, at least in the short run.

### **Issues in the Upcoming Negotiations**

The last reform of the CAP introduced a patchwork of systems for making the single farm payment to farmers in different parts of the European Union. The implications of this is that for the first time the members states will be approaching the negotiations with very different experiences of operating payments systems in their own domestic countries. How that will impact on the dynamic of the negotiations is hard to predict, but it will have an influence, not least in terms of the widely varying impact of any proposed change with and between member states.

Similarly with decoupling a menu of options were agreed in the last CAP reform. Member states will be approaching these negotiations from a background of mixed experiences in their own countries and with a varying degree of familiarity and practical understanding of operating different coupled and decoupled options. Again this will create its own dynamic in the CAP reform negotiations.

The third big change is that we have more member states around the table. In fact this time we have the largest number of countries that have ever sat down and tried to reach an agreement on reforming the CAP and that will present its own unique challenges.

So how should Ireland approach this reform?

First, in my view, we should seek to maintain the concept of a menu of options and not return to the one size fits all which we previously had. I think there will be broad support for that around the table. Given the diversity of agricultural systems across the area of the EU, I can't see countries actively seeking a return to a one-size-fits-all CAP.

The second challenge is then to ensure that within the menu of options, there is at least one option that would be acceptable to Ireland and that Irish farmers can operate. The easy option is to go and seek to retain the *status quo* and I expect that will be the opening position. But we would be foolish not to have at least evaluated what others might put on the table. We should do our homework now, in the early stages of this debate on CAP reform. If, during the cut and thrust of the negotiations, alternatives are introduced by the Commission or by other member states, we will then be in a position to know and will have evaluated what Ireland's position should be. Teagasc, as always, will make available its expertise in policy analysis and the resources of our statistical databases, including the National Farm Survey, in support of presenting the best policy case on behalf of the Irish industry.

We will need to have this detailed understanding of other systems and proposals, if we are build alliances across the larger EU, which will be necessary to achieve a favourable outcome for Irish farmers and the Irish industry. The debate at this conference today is a start and we need to follow this with other sessions in the weeks and months ahead.