

# CAP after 2013: a Concept for the long view

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# Sources of the presentation

- *Notre Europe's Report* : with JC BUREAU (AgroParitech)  
*CAP reform beyond 2013: An idea for a longer view*  
<http://www.notre-europe.eu>
- Draws from Task Force workshop October 2007 (Co-chaired by Fischler and Nallet) but drafted and assumed by JCB and LPM not a synthesis
- Also borrows from our separate work referenced in the report (my 2001 book in French and Chapter in forthcoming book in honour of S.Tarditi, Routledge; UK rebate and co-financing)
- In line with The “Buckwell Report” of late 1990's

# Issues covered

- I start from the merits and limits of the CAP reformed from 1993 to 2003
- briefly comment the Health Check,
- move on to a longer view of a CAP (after 2013) and make a guess at prospects
- I will only address here the structure of direct Payments/ Nature rural public goods

# A few remarks on CAP reforms 1993-2008 (1/3)

- Only limited changes (in support) are phased in, and in such a way that they
  - ◆ have not really hurt vested interests
  - ◆ have soothed our foreign competitors
- But change in instruments have corrected major internal market imbalances and somewhat lessened input intensity
- Hence essential public stakes such as environment quality and Rural Development concerns are not effectively addressed

# A few remarks on CAP reforms 1993-2008 - (2/3)

- One feature of the reforms is major however: Changes in instruments alter the dynamics of the CAP in the long run
- The great merit of the reforms as designed by the Commission has been to alter the political economy of the decision making for the following waves:
  - ◆ direct aids being more transparent, their legitimacy and efficiency are questioned. Society demands modulation and capping , the outcomes are there but still limited.
  - ◆ The large agricultural budget is highly visible and keeps the pressure on the CAP

# **Additional steps from 1999 to 2003 :positive but far from target (1/2)**

- The additional steps made from 1999 to 2003 are globally positive, such as
  - further decoupling of payments (but to what extent?)
  - and mandatory cross compliance and modulation.
- Positive effects on the environment and on rural development were expected from these moves

# Additional steps from 1999 to 2003 : positive but far from target (2/2)

- But the environmental benefits of the reforms are mixed (evidence from National RD Plans assessments and other sources)
- The record of positive impacts of Rural Development Plans on rural employment is at best patchy or rather uncertain
  - ◆ Most of the instruments in the National R D Plans are agricultural, other bases for rural development are neglected.
- Exceptions ?
  - ◆ LFA and special contractual measures seem to have a positive impact (Scotland, Austria)
  - ◆ (though the question of windfall gains is still relevant)

# 2007-8 and The HC proposals (1/4)

- The Council has agreed to make compulsory the publicity of the names of SFP beneficiaries in all Member States. (I thought it would change the attitude of public opinion, but it received little media coverage)
- The Commission proposals in the *Health Check* are globally sound, relevant, and point to the future ( although in a discrete manner)
  - ◆ They are even non dogmatic regarding coupled payments in selected cases or in L F rural areas
  - ◆ The simplification of cross compliance and the shift to pillar II through modulation are welcome

## 2007-8 and The HC proposals (2/4)

- But these improvements do not change the logic of the bulk of direct payments (SFP)
- SFPs have kept their status of “rights” to receive public fund due to history
  - Rights which have an equity value since they can be transmitted by sale or inheritance and hence mingle with farmer’s business decisions
  - This fear of equity losses is a stronger incentive than income losses for lobbying & political influence to keep the status quo (amplification mechanism)
  - SFPs do not provide the relevant incentives, still suffer from the original sin of “compensation logic”

## 2007-8 and The HC proposals (3/4)

- We have little evidence on cross-compliance efficiency, (buffer strips seem to work, pollution abatement doesn't....). It is perceived by farmers as a negative constraint offsetting their “rights to get support” \*
- The preservation of National Envelopes is a sign of political weakness (in addressing European issues in a “European” manner)
- The limitation of the co-financing to pillar II measures does not ensure the desired responsibility of Member States
  - Large disparities in the net financial balances are still a bone of contention.
  - The UK compensation is no longer justified but so-called financial solidarity is not a solution but a problem for the CAP.

# 2007-8 and The HC proposals(4/4)

- A new concept is necessary and the time has come for a new start: the Rome Treaty objectives should be extended and revised
- a new concept should
  - ◆ focus on essential market failures
  - ◆ Convert support into incentives
  - ◆ Allocate public money according to returns in social value and services
  - ◆ Extend subsidiarity in the design and the financing of the CAP measures

# A new concept for the CAP after 2013

- Hence the founding principles for new payments
  - ◆ Differentiation and targeting (according to space and practices)
  - ◆ Proportionality-efficiency (closer link between value of service and aids; and value and costs)
  - ◆ Consistency : (aids to organic farming more attractive than to conventional and not the converse as it still is)
  - ◆ Simplicity and stability ( to build on learning processes and returns to scale due to sunk administrative costs )

# A new concept for the CAP after 2013\*

- ◆ Freedom to contract and commitment to service instead of a right to cash a windfall
- ◆ Accountability. Public money = public services = control.
- ◆ Financial responsibility of MS
- Two Key challenges :
  - ◆ A better articulation between the Single Farm Payment and the incentives to husband rural public goods
  - Discipline national interests and second thoughts in the decision process regarding national financial balances

# A three stage Contractual Payment Scheme covering pillar I and II.

- the SFP is replaced by a contract which offers Basic husbandry payments (BHP). They
  - ◆ target commercial farms in areas considered as “ordinary” (main part of rural territory)
  - ◆ Are tied to commitments made by operators, (this changes the logic of cross compliance)
  - ◆ Are scaled down/current SFP
  - ◆ Are neither tradable nor transmissible to heirs
  - ◆ Have a limited but significant duration

# A three stage contractual payment scheme covering pillar I and II.

## ■ *Natural handicap payments*

- ◆ are contractual payments targeting farms in rural zones with natural handicap which cannot compete but are essential to the rural fabric.
- ◆ These payments may be coupled with production or animal heads under conditions of low inputs or low stocking rates (a Scottish study has shown that decoupling may lead to land abandonment).

# A three stage contractual payment scheme covering pillar I and II.

## ■ Green points payments.

- ◆ Target farms which use production techniques such as organic or who commit to a higher level of environmental services than basic regulations
- ◆ They are a schedule of *credit points* associated with a menu of commitments/rural landscapes & resources.
- ◆ The GPP would be prescribed for portions of the rural territory which are environmentally sensitive or endowed with high nature value assets.
- ◆ They could also contribute to alleviating the footprint of agriculture in “ordinary areas” by supporting farms engaging in organic or designated extensive methods.

# Horizontal principles

- ◆ No more open-counter aids but contracts
- ◆ duration limited in time
- ◆ “Intuitu personae” , hence not transmissible
- Financial **responsibility** instead of so-called “**financial solidarity**” : All the contractual payments, including the BHPs are co-financed by the national budgets (50% ? ). This would greatly reduce
  - ◆ Existing disparities in financial balances across MS
  - ◆ Built-in incentive for Member States to cash in balance of payments windfalls\*
  - ◆ This institutional change would alter the behavior of farm ministers in Brussels (D. North)

## Conclusions (1/3) : the proposals in perspective & unresolved issues

- are partly radical (personal contract and land sliding redistribution ) and partly “ad hoc”
- will not substitute for other policies such as environmental or regional policies and participating Rural Dt programs (e.g. Leader)
- recognize the limits of fine tuning and administrative costs (quasi BHP basis rest on to land managed in an environmental friendly manner)
- Hence are not entirely consistent with principle of Proportionality-efficiency (how close can we be?)

# Conclusions (2/3) : the proposals in perspective & unresolved issues

- The proposals maintain a degree of supranational CAP. They assume that rural public goods exist or can be provided by agriculture under some conditions
  - ◆ Some being global enough to justify participation of European funds ( the challenge is to avoid free riding of MS) (biodiversity)
  - ◆ Some being local enough to motivate subsidiarity in both decision making and even financial participation of local authorities (rural amenities)
- Rules decided at the EU level can help avoid or curtail political failure at local level \*
- Lessons from fiscal federalism : does not tell so clear a message in favor of maximum local power and minimum Europe when various issues are taken on board. I differ from Euro-skeptics and I am not a dogmatic liberal
- There are precedents of Decisions at EU level for local public goods or for ethical issues with different preferences across Member States. In the anti CAP group

# Conclusions (3/3) : the proposals in perspective & unresolved issues

- Un resolved issue 1: How can payments/ha be made close to value of services to rural public goods ?
- Un resolved issue 2: The value of rural public goods are heterogeneous across space, even in “ordinary” rural zones, flat payments are not perfect. Opportunity cost of labor varies across Europe and is lower in the NMS
- Un resolved issue 3: The question of reference to start rewarding practices. Basic environmental regulation or no natural capital loss\*? This reference amounts to a definition of property rights\* which may evolve with technical change and economic development\* (Demsetz)
- Adjustment of payments to costs to avoid creating rents is again difficult to solve in a perfect manner; Schemes do exist along the line of GPP (UK, Bavaria, +/- French CAD)

# After thoughts 1 : deep reform in 2013 may appear less likely now

- In the budget review the chapter on CAP was consistent with our suggestions. It is said it has been “binned”, although it may be revived.
- Last year I thought that the balance was moving in favor of serious changes (Lisbon Agenda); I am not so convinced any more.
- Market outlook will be a key contextual factor, as shown by the milk crisis
- Political economy is biting again and weakening pro-reformers (some of whom are not free from dogmatism) : there is no constituency for public goods save for NGO, nor for genuine RD programs (who defends non farmers in rural areas?)
- Country differences: two basic group G4 / G22; NMS = rent seeking ?
- But budget net balances are rocked by enlargement and net losers are tired
- Even in the anti CAP and radical UK, voices are raised for preserving the CAP (RISE, food security..., concerns for rural areas) the discussion of the UK Rebate will bear influence on the link between the CAP reform and the budget
- The outcome of EP co-decision is everything save a clear cut swing against the CAP : Politicians and even MEP sense they have more to lose from cutting the CAP payments to farmers that to gain from investment in Lisbon priorities for the long run
- Ciolos said as second French commissioner and Barnier blocking? Not so sure.

# After thoughts : deep reform in 2013 may appear less likely now

- Within the DG AGRI , the need for some income support is still widely shared. Concerns that drastic cuts in SFP would have dramatic effects are high and even threats on the most efficient farms (DK, NL,..) are seen likely. I see two unresolved problems on this regard:
  - ◆ Simulations of impacts are mostly static, dynamic adjustments are to be assessed. Such analyses are not available (at least disaggregated by farm types)
  - ◆ Paradox to be solved : Does this mean that the SFPs and the current CAP have induced a non resilient farm structure in Europe? Why do the “most advanced farms” also belong to the group of the most dependent on aids?
- A big challenge for the EU-15 members of G22 is to solve the contradiction between maintaining a “strong CAP” (i.e. the status quo) and bearing the budget cost of extending full fledged payments to the NMS
- Even the net gainers now would face negative balances. I would think that some tension will emerge between the finance and the farm ministers in France and other net gainers like Ireland

# Final word : The lines are moving, some changes will happen

- I would guess that SFP will be seriously reformed,
- made lower and flatter, e.g. through further modulation or capping
- Co-financing by MS will be introduced to alleviate net balances in some manner, either along the lines of Pillar II or through regulated top ups by MS
- but SFP will not be eliminated nor changed into stricter contractual payments for rural public goods (constituency for that is yet too weak)
- French minister Barnier has said when he was in office the “CAP should gain in legitimacy, otherwise some could lose everything”. He has a point.
- I believe I recently heard, or.. read, or... may be was told that
  - ◆ UK was going to give up the financial rebate
  - ◆ And accept to cut payments to big farms
  - ◆ And France was going to give up financial solidarity “principle” and to agree to extend co-financing to pillar I
- But may be I just had a dream?