

A new payment scheme for the cap beyond 2013

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1

Sources of the presentation

- *Notre Europe's* Report (2008): with JC BUREAU (AgroParitech)
CAP reform beyond 2013: An idea for a longer view <http://www.notre-europe.eu>
- *Politique Agricole : Un modèle Européen*; Presses de SciencesPo Paris, 2001.
- Chapter 7 on “co-financing” in book forthcoming with Routledge (ref. in Paper)

2

Outline of presentation

- Few remarks on the merits and limits of the CAP reformed from 1993 to 2008
- Move on to a longer view of a CAP (after 2013)
- Here, I will only address the structure of direct payments/ rural public goods
- But, I consider that institutions are needed to tackle price and income instability and to increase the market power of farmers (structurally weak)

3

A few remarks on CAP reforms 1993-2008

- Past reforms were changes in instruments which have corrected major internal market imbalances and somewhat lessened input intensity
- But only limited changes in support were phased in, and in such a way that they little altered the rules of support distribution (farm size and systems matter, not farm practices)
- Hence essential public stakes such as environment quality and Rural Development concerns are not effectively addressed

4

A few remarks on CAP reforms 1993-2008

- The environmental benefits of the reforms are mixed or partial
- The record of positive impacts of Rural Development Plans on rural employment is at best patchy or rather uncertain (save may be for LFA)
- *Health Check* Decisions are globally sound, relevant, and point to the future (although in a discrete manner)
- But these improvements do not change the logic of the bulk of direct payments (Single Farm Payments/Droit à Paiement Unique)
 - ◆ 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
 - ◆ SFPs do not provide the relevant incentives, still suffer from the original sin of “compensation logic
 - ◆ Make AEM/MAE less attractive

5

A few remarks on CAP reforms 1993-2008

- 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. National balances pollute decisions.
 - The UK compensation is no longer justified but so-called financial solidarity is not a solution but a problem for the CAP (see chapter 7 in Forthcoming book)

6

A new concept for the CAP after 2013

- A new concept is necessary and the time has come for a new start: the Rome Treaty objectives should be extended and revised
- In spite of the crisis income support is not credible argument for the current direct payments ; food security is defensible but SFP are not targeted at this objective ; the most credible reason for support is provision or rural public goods
- a new concept should
 - ◆ focus on essential market failures
 - ◆ Convert support into incentives
 - ◆ Allocate public money according to returns in social value and services (public funds for public goods)
 - ◆ Extend subsidiarity in the design and the financing of the CAP measures

7

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)

8

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

9

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

10

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).

11

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.

12

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)

13

Conclusions (1/2) : the proposals in perspective

- 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 based on land managed in an environmental friendly manner)
- Hence are not entirely consistent with principle of Proportionality-efficiency (how close can we be?)

14

Conclusions (2/2) : the proposals in perspective

- 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.
- There are precedents of Decisions at EU level for local public goods (fresh water quality) or for ethical issues (such as animal welfare) with different preferences across Member States.

15

Last word

- Hence we need a common policy, but less polluted by national net financial balances. Co-financing would help.
- Europe certainly needs its farmers, not only for food but also to husband its model of countryside which is part of European heritage
- Collective action is well organized to defend the well being of the farming community. It is not the case for rural public goods which have no direct constituency of users
- There is a role for the European Parliament who represents the society as a whole in insuring the emergence of a better targeted Agricultural policy for the benefits of farmers and other stakeholders, and of Europe in general

16