

PROBLEMS WITH THE CAP REFORM PROCESS AND RECOMMENDATIONS FOR SUPPORT FOR SUSTAINABILITY

**Presentation to the conference “How can we make the EU's
Common Agricultural Policy green and fair?”**

**Organised by NOAH Friends of the Earth Denmark and La Via
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Why another CAP revision now?

- Three reasons:
- Dissatisfaction with complexity of the last reform
 - **Simplification** and greening
- New challenges
 - **Modernisation**
- Justify CAP share in post-2020 Multiannual Financial Framework
 - **Budget**

Future of direct payments

- Communication sees **continued role for direct payments** to provide basic income support
- These payments currently account for over 70% of CAP expenditure and nearly 30% of the entire EU budget.
- They do not serve well the purpose of **income support** of the most needy farmers
 - Most direct payments go to relatively few farms with incomes well above the median income
- Communication proposes greater 'fairness'
 - Make capping and degressivity more effective
 - Enhanced focus on the redistributive payment
- ... but fails to address who gets the payments and why?

DISTRIBUTION OF EU DIRECT SUPPORT TO FARMERS

Number of **FARMS**
(million)

FARMLAND managed
(million ha)

DIRECT SUPPORT
(billion EUR)

SMALL FARMS
(< 5 hectares)



7.7



2.4

PROFESSIONAL (FAMILY) FARMS
(5-250 hectares)



29.3

BIG FARMS
(> 250 hectares)



0.08

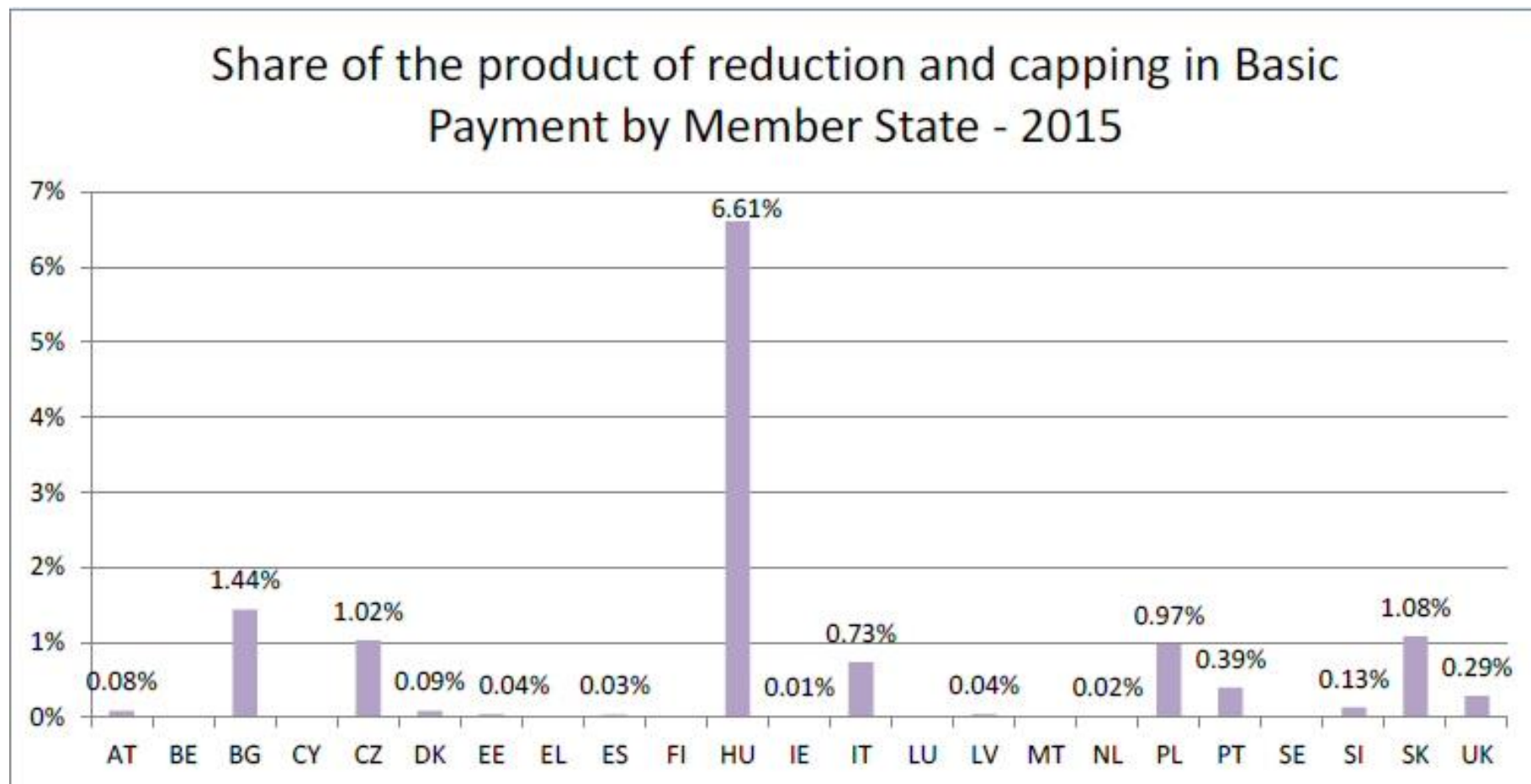


9.0

Source: CAPS control data, 2015

Source: Commission CAP Communication, 2017

Capping and degressivity to date yield just 0.44% of basic payment, 0.25% of DPs



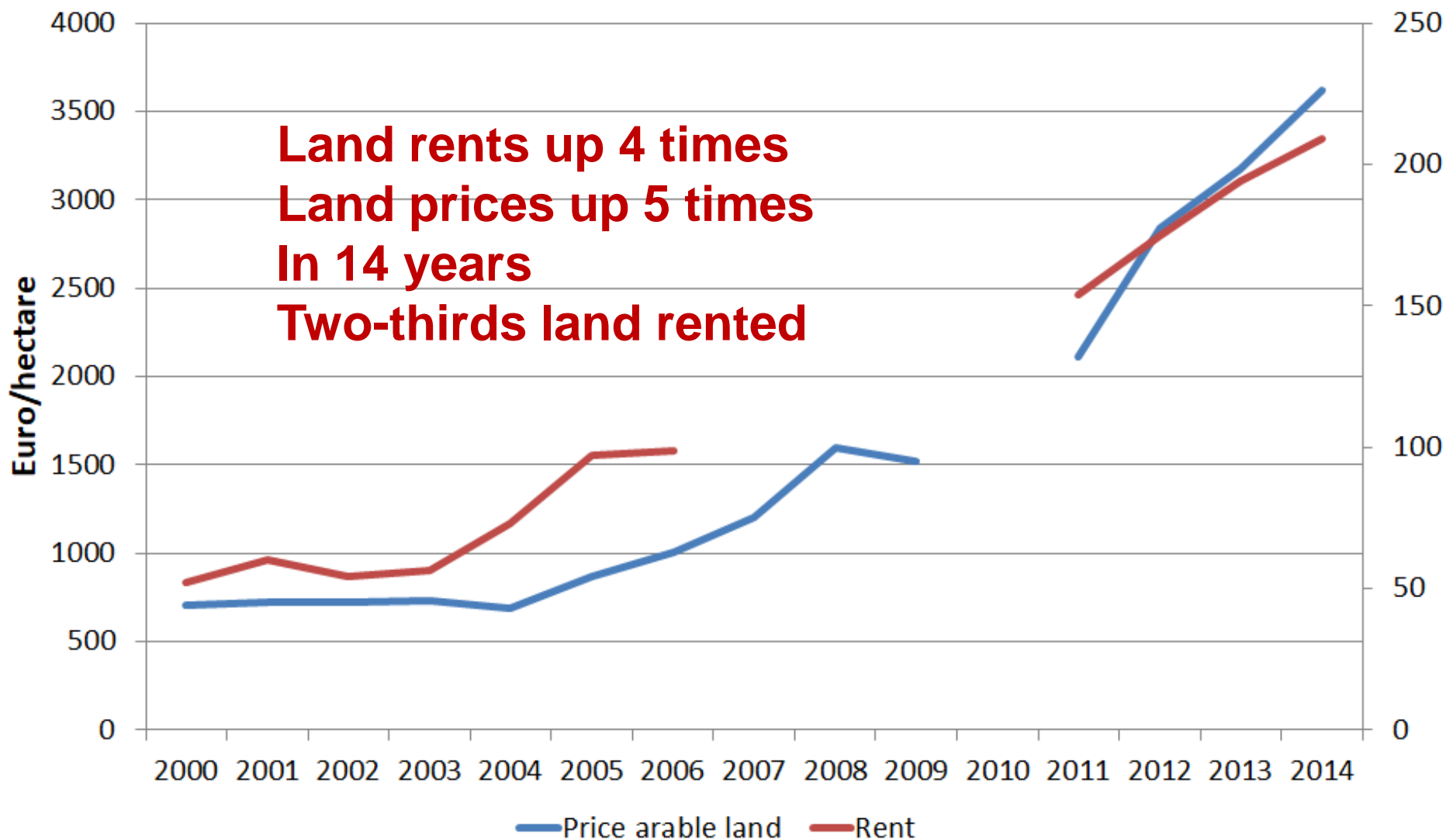
Source: AGREX DG AGRI.

Source: Commission, Implementation of direct payments in 2015 claim year, 2017

Ineffectiveness of direct payments

- Not all direct payments go to increase farm incomes
 - Due to capitalisation and leakages
- Small farms often add to low farm income with off-farm income
 - Although statistics are poor, no evidence that average farm household incomes lie below average non-farm household incomes in EU-15
- Agricultural support in the longer-term influences the structure of agriculture, but not the level of farm income
- Many farms depend heavily on direct payments

Trend in land values in Bulgaria since 2000



Importance of direct payments by farm system, EU-27, 2011-2013

	Field crops	Horti-culture	Wine	Other perm-anent crops	Milk	Other grazing live-stock	Grani -vores	Mixed	Total
Farm income depending on direct aids	55%	7%	9%	29%	41%	70%	22%	61%	44%
Farm income depending on other subsidies	13%	3%	5%	7%	17%	31%	8%	21%	15%
Farm income depending on market factors	32%	90%	87%	64%	42%	-1%	69%	18%	41%

Source: Own calculations based on DG AGRI, FADN public database

Future of direct payments

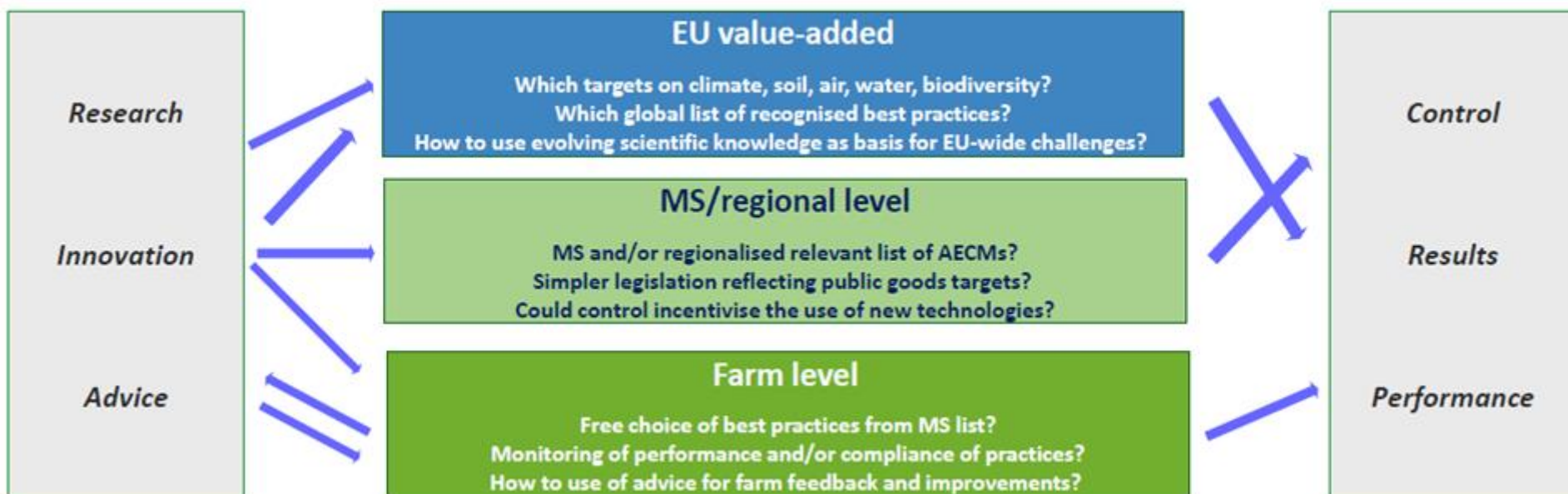
- Continued transfers to many farms are justified, but are (relatively) unconditional area-based payments the right instrument?
- They are **inefficient instruments** to address food security, risk management, efficiency of resource use, and the delivery of rural environmental services
- While public support to farmers can be justified, the **current level of dependence on a general income support payment was never envisaged and cannot be sustained**
- Communication favours continuation of two-Pillar CAP structure, but future of greening payment is in doubt
 - Balance between Pillar 1 and Pillar 2 will be determined in MFF

Future governance framework

- Future CAP architecture “would provide for targeting interventions to well-defined economic, social and environmental objectives while reflecting the needs and aspirations of the territories concerned”
 - Future delivery system should be more **results-based**
 - MS should pursue **agreed and realistic targets** within basic CAP parameters set by Commission
 - Prescriptive compliance elements such as measures’ details and eligibility rules in EU legislation will be removed
 - Should boost subsidiarity by giving Member States a greater role in **how they meet agreed targets** in rolling out CAP schemes
 - **Simpler planning process** as compared to current RDP process
 - **Commission role**
 - To approve and assess Member State plans
 - Supervise delivery of results through a “well-designed audit and assurance system”

Land management options

MS will devise a mixture of mandatory and voluntary measures in P1 and P2 to meet environmental and climate objectives



Communication – CAP strategic plans

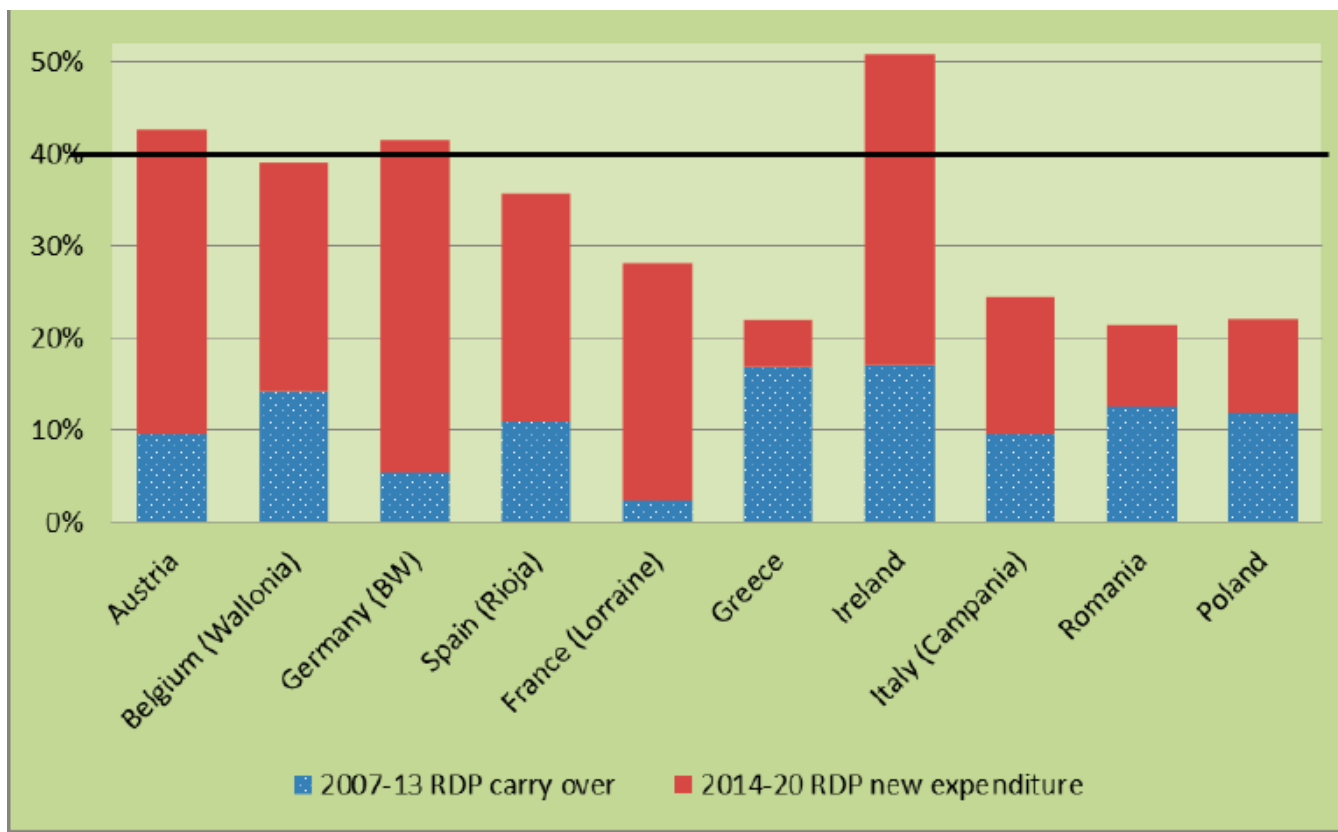
- Objectives/instruments agreed in context of **CAP strategic plan** covering both Pillar 1 and Pillar 2
- How will the Commission ensure **ambition** in MS plans?
- How will Commission police **implementation**?
- Is the **state aids framework** strong enough to avoid distortions in the single market?
- Is there a role for **budgetary incentives** to encourage a higher level of ambition?

Shift CAP resources from pre-allocated spending

- MS are given their spending ceilings for CAP P1 and P2 when the MFF is agreed
- MS receive their money **provided minimum criteria are met**
 - Commission disallowances (financial corrections) where MS expenditure is not in conformity with applicable EU rules
 - Financial corrections in agriculture run at €1-1.5 billion annually
- **No incentive mechanism** to encourage MS to adopt ambitious programmes, indeed the opposite (*next slide*)
 - Incentive structure further weakened if CAP pre-allocations are agreed on the promise of reform, which is later watered down

MS opt for low levels of ambition

RDP performance indicator for target per cent expenditure in 2018 compared to total ceiling



Note: As 2023 is the last year of eligible expenditure under the 2014-2020 programming period, an equal distribution of expenditure over the period (from the approval of each RDP until 2023) would lead to an average 41 % of expenditure in 2018.

Source: ECA analysis based on RDP data.

Towards an incentive-based CAP budget

- **Make more effective use of performance reserves**
 - A feature of EU Structural Funds, around 6% held back to be released in 2019 if performance indicators in performance framework are met
 - Commission's performance indicators are output (or even input) indicators, not results-based, and sanctions are ineffective
 - Scathing criticism in ECA 2017 but weak recommendations
- **Attach conditionalities to CAP disbursements**
 - Macro-economic conditionalities introduced for Structural Funds..
 - Sanctions applied if macro-economic targets are not reached
 - Could CAP funds be withheld if performance targets not met?

Towards an incentive-based CAP budget

- **Make greater use of competitive funding**
 - Examples include Horizon 2020, DG AGRI grants for promotion
 - Danger of skewed results if initial starting positions are not taken into account
- **Extend national co-responsibility to Pillar 1**
 - Discussed in Commission Future Finances paper as a way to reduce EU CAP spending
 - Only relevant as an incentive mechanism where MS have alternatives in how P1 money is spent, hence importance of fungibility with P2

Conclusions

- The proposed CAP governance framework has **potential** to deliver a more sustainable European agriculture but there are many unanswered questions
 - NGOs CAP Fitness Check indicates the gap that current exists
 - How to ensure an indicator-driven performance-based framework rather than prescriptive approach delivers results
- For CAP reform advocates, the Commission's MFF proposal next May can be a **more important** document than the published Communication
 - Will establish overall CAP budget, division between P1 and P2, national co-financing, and allocations between Member States
 - The **entitlement nature of CAP MS ceilings** must be addressed if we want to see ambitious public goods targets in CAP programming

Political and scheduling constraints

- Commission **legislative proposals** (with impact assessment) not expected before July 2018
- Co-legislators unlikely to agree within nine months of Commission publishing legislative proposals
- **New Commission** (and possibly new Commissioner) after October 2019
- **MFF conclusions** not expected before end 2019
- Will European Parliament agree to draft its opinion before it knows the outcome of MFF negotiations?
- Complex legislative package likely to require **at least 24 months to agree**, implying no agreement before end 2021
- New CAP rolled out in **2023**?

THANK YOU

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