

CAP Reform after 2013: a Concept for Nature Rural Public Goods

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Sources of the presentation

- *Notre Europe's* Report :

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 paper

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)
- 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 Marginal and Incremental Changes are phased in, and in such a way that they
 - ◆ Do not hurt vested interests or as little as possible
 - ◆ Correct major internal market imbalances & adverse effects on foreign competitors
- 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)

- The history of support has created in the farm community across Europe a culture a “rights to cash support” with reluctant accountability regarding the counterparts (see farm vote on the “Treaty” in FR and IRL)
- A classic observation is that the council is more conservative than the commission proposals, however prudent they are. One important explanation is the rule of the EU game and in particular budget rules

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

- 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?)
 - 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)

- The environmental benefits of the reforms are mixed (evidence from National RD Plans assessments and others)
- 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 (this important decision did not receive much coverage, but it could have significant political impact by undermining the legitimacy of the current payments)
- 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*.

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 *
- To day's CAP is laden with distributive issues, both between countries and social groups. This is a sign of inefficient institutions = rules of the game.
- 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
 - ◆ 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 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 rent
- ◆ Accountability. Public money= public services= control.
- ◆ Financial responsibility
- 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 (Scottish study).

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.
- ◆ 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 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 reduced *
 - ◆ Existing disparities in financial balances across MS
 - ◆ built-in incentive for Member States to cash in balance of payments windfalls*
 - ◆ this institutional change would later alter the behavior of policy makers (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 (leader)
- recognize the limits of fine tuning and administrative costs (quasi BHP linked to land managed in an environmental friendly manner)
- Hence are not entirely consistent with principle of Proportionality-efficiency (how close can we be?) (DG AGRI November discussion)

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 *for maximum local and minimum Europe when various issues are taken on board
- Precedents of Decisions at EU level for local public goods or for ethical issues with different preferences across Member States*

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

- Un resolved issue 1: Are payments/ha close to value of services to rural goods (see “post stamp” calculation)
- Un resolved issue 2: The value of rural public goods are heterogeneous across space, flat payments are not perfect
- Un resolved issue 3: The question of reference to start rewarding practices. Basic environmental regulation, 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 rents, again difficult to solve in a perfect manner; may be lesser problem for BHP and conventional agriculture. Schemes do exist along the line of GPP (UK, Bavaria, +/- CAD)

Final word : The lines are moving, there is some hope for change

- French minister Barnier has recently said the “CAP should gain in legitimacy, otherwise some could lose everything”
- I believe I recently heard that
 - ◆ UK was going to give up the rebate
 - ◆ And accept to cut payments to big farms
 - ◆ France was going to give up financial solidarity “principle” and to agree to general cofinancing
- But may be I had a dream?