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Executive summary

With the gradual shift from price support and then strong focus on the environment, the 1993 and 2003 Common Agriculture Policy (CAP) reforms are considered as major. Does the proposed CAP after 2013, defined within the seven draft regulations of October 2011, herald a 'major' reform?

The proposal contains some significant changes and creates a link more systematically between instruments and new objectives in sustainable development. It also comprises important innovations such as the recognition of organic farming or the creation of a crisis reserve. The extent of these changes, both in compensation for environmental practices and in capping and risk management remains relatively limited, however. The expected effects will therefore be proportional.

1. Single payments

The lack of legitimacy of single farm payments (SFPs) has become obvious and this needs to be remedied. The **precise adjustment of payments for**

the public services rendered (or “public goods supplied”) by each farm, whether environmental or political-economic, remains **difficult to achieve** for both technical and political reasons. The **reorganisation of payments** paid per hectare, but **adapted** in relation to practices and **differentiated** according to sector and area, has therefore appeared to the Commission as the only way forward in order to reform first pillar payments.

The **major changes** concerning these are:

1. greening,
2. the end of individual historic references, thus allowing homogenisation of payments between regions and farming orientations,
3. capping,
4. positive discrimination towards disadvantaged areas and vulnerable sectors (partial coupling), and towards young and small farmers.

2. Greening

At the onset greening allows rectification of support given to **organic farming**, which had for a long time been penalised.

Environmental bonuses are a **new feature to be welcomed**. They were meant to remain based on simple and observable indicators, which explains the conditions of crop rotation and ecological focus areas placed in reserve as well as the maintenance of grasslands.

Without denying the difficulty of defining such payments in a satisfactory manner, the **shortcomings of the system** proposed concern:

- the low requirements in relation to existing practices (crop rotation and portion of utilised agricultural areas in ecological focus areas),
- the high cost of environmental bonuses due to their application methods (supplements to basic payment on all the utilised agricultural areas, without adjustment to shortfall).

As a rationale behind this suggestion, the argument of forcing the hand of intensive and highly specialised agriculture appears, but it is not necessarily convincing, for the windfall effects will be frequent.

By **defining requirements for ecological focus areas on a spatial rather than an economic grid**, with the possibility of adjusting their rates over small areas with an obligation exchange, this would allow to take soil fertility into account and to obtain minimum requirements of biodiversity hotbeds thanks to a continuous framework over the rural area.

Lastly, the **grassland support mechanism** does not comprise a chapter to encourage the restoration of grasslands, which would be desirable in certain areas where SFPs have given rise to opportunistic conversions. The cautious introduction of the Water framework directive might bear later postponements.

3. Basic payments and capping

The economic justification of basic payments by claiming food supply security remains problematic.

The apparent need for these payments to provide the financial stability of some very large and modernised farms is the result of a static and virtual vision.

Furthermore, **capping has only had a limited impact** because of wage cuts. It is a long way from a true ambition for fairness in the use of public funds, as this use is not well-founded.

As long as basic payments are:

- linked to land, transferable and uncapped,
- with no clear relationship between excess costs or shortfalls linked to the obligations to be respected,

they will simply provide additional earnings and lead to a race for property, as soon as the size of the holding allows the owner to reach a good level of income. It would be better to **foresee a gradual decrease with a transfer to the crisis reserves.**

There is one major positive point to be highlighted in basic payments, however: the break away from historic references opens the **possibility of rebalancing support** between farms, farming orientations and regions.

4. Risk management and market power

The main market measures implement an array of instruments that represent **real progress in mitigating economic risks and in rebalancing competition between farmers and the sector downstream.**

The creation of **crisis reserves outside the Multiannual Financial Framework** (MFF) is an excellent initiative. But the **coordination of stabilisation tools** that come under three types of funds (pillars I, II and funds outside the MFF) **will not be without its problems.**

The extension of powers to all POs in all live products to negotiate contracts and prices should become a reality someday. There will remain, however, a large portion of isolated producers facing dominant purchasers. But giving the means to dispersed sellers, i.e. farmers, to create oligopolies in response to large agri-food and distribution groups is not without its drawbacks.

It is also important to add that a more active policy to measure the **effectiveness of competition downstream and upstream of agriculture (agri-supply industries)**, and increased vigilance concerning concentrations will also be necessary.

5. New distribution between the pillars

The organisation of pillar I and pillar II funds is an important factor, but it is less affected by the reform.

The **creation of crisis reserves outside the MFF** is certainly the greatest innovation of the proposal. It amounts to the beginning of a third pillar in the CAP.

Better consistency between first and second pillar aid thanks to the reform of SFPs is to be welcomed. Nevertheless, coordination between pillar I environmental payments that are entirely financed by the EU budget, and contractual agri-environmental measures (AEM) co-financed by member states will be put to the test.

Maintenance of pillar I basic payments and therefore their totally Community-based financing does not eliminate calculation by member states in terms of CAP budgetary 'returns'. We should in the end move toward a sharing of powers and co-financing between the member states and the EU according to the local or European dimension of public goods affected by the CAP. **In a future stage** the more systematic creation of a third pillar (crisis reserve outside of annuality) can be expected. This would bring together all the financial means to manage market disturbances, means that are currently dispersed in the first two pillars, with a progressive shift of some of the basic payments towards pillar III.

6. Falling short of a major reform yet a positive and politically realistic development

The current proposal **only partially corrects** the negative effects:

- of the CAP on the environment,
- concerning the sector's total dependence on support, due to the maintained capitalisation of payments in land.

Real targeting to the public services provided by agriculture is not fully completed. The effects of incentives for good practices and the adjustment of aid to the actual costs of supplying public goods **remain in the initiation stage.**

The announced **reform is nevertheless a significant and important one** as it redirects the CAP towards European public goods and initiates its freedom from positions of interest inherited from the past.

It will be necessary to re-examine it, either by anticipating the negative effects, or by correcting them afterwards, which, **politically, is more realistic**. This reform remains a positive development, undoubtedly the only window that is politically open in the economic context, which confirms a clear direction and will lead to progress if political representation does not water it down excessively, either at the decision-making or the implementation phase.

Proposed amendments to the draft reform

Amendment I: The definition of ecological focus areas should not apply to farming units but rather to a **spatial grid.**

Amendment II: Obligation exchanges should be authorised between farmers to create ecological focus areas on a **watershed grid,** by applying the average rate of 7% to this scale and by allowing, as a result, a variable rate with a lower minimum threshold for smaller spatial scales.

Amendment III: Incentives should be implemented to create **ecological corridors** (through bonuses or other benefits) and the contiguity of ecological focus areas of several farm holdings.

Amendment IV: In order to maintain the incentive to restore former grasslands that have been converted to cultivated land, in addition to the rule of non conversion of grasslands, a bonus should be added for permanent grassland surfaces, in conjunction with basic direct payments and environmental bonuses, at least in sensitive areas where arbitration between grassland and crops is relevant.

Amendment V: An assessment of sloping lands in valleys should be conducted and an incentive mechanism should be implemented to restore those areas of extensive livestock rearing to grasslands.

Amendment VI: Payment ceilings should be raised to account for labour only for farm cooperatives.

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Introduction

As part of preparation of the European budget for the upcoming financial perspectives 2014-2020, the European Commission has published three documents that lay the groundwork for the new Common Agricultural Policy (CAP): general guidelines for the CAP (November 2010)[1]; budgetary proposals (June 2011)[2] and detailed legal proposals for seven regulations concerning the CAP (12 October 2011)[3].

The main CAP reforms follow an apparent ten-year cycle: milk quotas in 1984, gradual shift from price support in 1993 and stronger focus on the environment in 2003. Although the level and the distribution of overall support were relatively unaltered, these two last reforms can be qualified as *major*. By

1. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future*, COM(2010)672 final, 18.11.2010.
2. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *A Budget for Europe 2020*, COM(2011) 500 final, 29.6.2011.
3. Proposals are available on the page "The Common Agricultural Policy after 2013", on the website of the DG Agriculture and Rural Development of the European Commission.

contrast, the Agenda 2000 reform and the 2008 Health Check could only be adjustments, although they were significant and heralded further in-depth changes. A major reform puts an end to instruments causing collateral damage and introduces new tools addressing issues of the future and designed well enough to last. As an example, the creation of milk quotas in 1984, effective in reducing surpluses but bound to disappear due to their adverse effects, does not fall under this category. A major reform should also pursue legitimate goals as regards public interests, and it should be concerned with the principle of equity. Does the proposed CAP after 2013, defined within the seven draft regulations of October 2011, herald a 'major' reform?

Despite real progress since 1993, the CAP still suffers from enough intrinsic shortcomings to require a new structural change. The current one stemmed from pressures outside the farming world (as is often the case) during the debate on Europe's low growth rate (the Lisbon Agenda) and in Franco-British tensions concerning the UK rebate, during discussions on the Financial Framework 2007-2013. At the end of the 1990s, the Lisbon Agenda had highlighted the tendency for the European budget to focus on the past – the CAP being cited as the most conclusive illustration of this – and the inadequacy of means allocated to projects promising for Europe's future. A significant shift of spending from agriculture to research, education, R&D, innovation, reducing climate change and environmental protection was even envisaged. Since 2007-2008, two events have helped to reinforce the idea of reassessing the agricultural budget after 2013: on the one hand, the financial crisis and then the national debt crisis made the extent of public spending in Europe a cause for concern; on the other hand, the boom in international commodity markets appeared as a favourable context to reduce agricultural dependence on public aid, although some questionably argued that global food shortages justify relaunching European agricultural production by maintaining the current CAP unabated.

The previous waves of reform hardly benefited from a preparation as extensive as the current reform which involved:

- the mid-term review required by the European Council of 2005 and leading to the 2008 Health Check;
- a significant assessment work conducted or commissioned by the European Commission;
- and formal consultation with various academic institutions, think tanks, stakeholders and NGOs.

These conditions were conducive to a well-thought-out reform. But ultimately, will it be of major scale?

After the 2008 boom, the rapid fall in prices and the major milk crisis, the drawbacks of the increased exposure of European agriculture to world prices once again became a central concern. The boom in prices which triggered excessive optimism and investment was followed by sharp and poorly anticipated income drops. The future of many farms was under threat. These developments renewed a cautionary attitude as regards the extent of the reform. Budgetary discussions within the Commission then gave way to the strong pressure from several member states to maintain the agricultural budget. In the European Parliament, the committee on agriculture and rural development initially envisaged possible changes but finally decided to maintain the status quo and a large budget even though the budget committee was more open to directing funds to other areas. Eventually, budgetary proposals are a compromise that tends to consolidate the agricultural budget for 2013 in nominal terms.

In these conditions, the ambition of the reform is limited to reshaping existing payments, with a focus on greening, and to introducing new market instruments. The current proposal will have a true ambition only insofar as the goals of the new CAP reflect a long-term vision of the challenges of European agriculture, and if the new measures are consistent with these goals, both in their form and their intensity.

1. The core of the proposal: more targeted payments and enhanced resilience to the market

The prominent elements of the proposal concern direct aids from the first pillar (Single Farm Payments, SFP), and market measures which appear in several regulations (CMOs, rural development, financial development) and even outside the Multiannual Financial Framework (crisis reserve). SFPs, which are still mainly based on historic references, are giving way to a series of payments targeted to environmental public goods, fragile areas and sectors, and 'real' and young farmers. Payments remain linked to land and transferable. They will, in principle, be capped and must converge, so as to reduce gaps between member states, farming orientations and farmers. Financial support to risk-management is set out in the second pillar, and there is a slight increase in market power for farmers by extending the scope of producer groups. The two-pillar budget structure and the co-financing rules are being maintained. Distribution of first-pillar support is set by national ceilings. There is a definite shift towards the allocation of direct aid in relation to the desired practices and towards a more balanced distribution that is freed from the past.

1.1. Redesigning the direct payments of the first pillar

1.1.1. Several targeted payments

The first pillar ***direct per-hectare payments***, which remain linked to land have been kept but undergo five main changes: greening, capping, convergence, simplification, and a certain amount of targeting. Greening consists of the split of the bulk of the payment between a ***basic payment*** and an ***environmental bonus***[4]. The latter is linked to observing three measurable practices:

- crop diversification (at least three different types, none of them exceeding 70% of the arable land, and none of them covering less than 5% of the arable land);
- the maintenance of permanent grassland;
- at least 7% of eligible hectares being allocated to ***ecological focus areas*** (land left fallow, terraces, landscape features, buffer strips and afforested areas).

Organic farming units are entitled *ipso facto* to this environmental bonus. member states shall use 30% of the annual national envelope for this payment. Payment for ***areas facing natural constraints*** has been established and member states can also allocate up to 5% of their annual national envelope to this. A ***voluntary coupled support scheme*** of 5% to 10% of the national envelope can be used for specific regions or specific agricultural systems experiencing certain difficulties and which are particularly important for reasons of sustainability (economic, social, environmental)[5]. Payment of up to 2% of the national envelope is available for ***young farmers***.

4. In the regulation proposal this is called a "payment for agricultural practices beneficial for the climate and the environment", but it should be called a bonus as it amounts to a top up in addition to basic payments.
5. The new structure of per-hectare payments displays a certain relationship with the mechanism proposed in the aforementioned study No. 64 by *Notre Europe*. A closer examination also reveals major differences.

Basic payment is defined by the national envelope, minus the aforementioned payments, which could add up to 47% of the total, divided by the eligible hectares that are the total amount of land allocated to agricultural activity, including areas covered by environmental directives (habitats, water, wild birds). Payment entitlements are transferable within a region or within a country.

A certain targeting of payments has been introduced: reserving aid for 'active' farmers (defined as those whose direct payments represent at least 5% of the total income from non-agricultural activities and who keep their land for farming use), promoting best practices (environmental bonus), supporting small farmers and areas facing natural constraints, and penalising, in principle, very large farms except where high employment numbers are concerned.

1.1.2. Capping, redistribution, simplification

Direct payments shall be capped through the following reductions: 20% for €150,000 to €200,000, 40% for €200,000 to €250,000, 70% for €250,000 to €300,000 and 100% for over €300,000. This reduction applies to payments, after wages and social contributions have been deducted. This amounts to raising payment ceilings for expenditure linked to paid employment. The sub-national convergence of payments takes place either at regional or national level. This should be completed by 2019.

The historic reference point and compensation principle will no longer apply, except *de facto* for the cotton sector and for the remaining coupled support schemes. Convergence between member states concerning per-hectare aid operates through the redistribution of national envelopes to the EU-12, thus closing one third of the gap between the EU average and payments in countries where they are below 90% of this average.

The advocated simplification applies to cross-compliance and a less demanding implementation scheme in terms of greening and control for small farmers.

1.2. Measures to tackle instability and low market power

Market measures are aimed at reducing the consequences of instability and the low market power of dispersed farmers up against agri-food industries and distribution networks.

Concerning instability: the residual tools for market intervention and market management remain in force. The automatic intervention scheme remains limited in volume and to a few products. The Commission will be delegated increased administrative powers, and operational funds will be maintained for the fruit and vegetables regime. In addition, in the Rural Development regulation (RDR) it will henceforth be possible to co-finance (up to 65%) insurance systems for natural disasters (mutual funds) and tools for managing price risk (stabilisation of income in relation to a three-year or five-year 'Olympic' average[6]; maximum compensation of 70% of losses over 30%). Lastly, two new funds will be available in emergency situations and complement the agricultural budget: a new reserve for crises in the agricultural sector and the European Globalisation Adjustment Fund.

To improve the market power of farmers, the single CMO regulation will extend to all sectors some elements currently existing for the fruit and vegetables ***producer organisations (PO)***, namely the option to extend PO rules and contributions to all producers. But operational programmes and market withdrawals will still be the privilege of the fruit and vegetables sector. The specific provisions for dairy producer organisations introduced in 2010 have been confirmed (the POs can negotiate contracts including a price defini-

6. Average over five years excluding the extreme values.

tion, even if there is no ownership transfer to the PO), as long as they do not cover more than 3.5% of total EU production or 33% of national production. Joint measures by POs concerning other sectors are allowed, such as:

- planning production;
- adapting it to demand "particularly in terms of quality and quantity";
- concentrating the supply and placing it on the market;
- optimising costs and "stabilising producer prices";
- managing by-products;
- and using resources in a sustainable manner.

Inter-branch organisations can promote quality, transparency, coordination and draw up model contracts.

1.3. Maintaining two distinct pillars

The two-pillar budget structure is being maintained and the rural development goals and instruments have been reaffirmed (competitiveness, innovation, development and social inclusion of rural areas, environmental and climate protection). Payments from the first pillar are fully covered by the European budget and national envelopes are settled for the financial period. Adjustment and capping arrangements will involve a small shift of funds towards pillar II. There is now the additional possibility of transferring 10% from pillar I towards pillar II and some designated countries can supplement direct payments by using 5% of their rural development funds. The organisation of the structure has been reinforced by support for the setting up of producer organisations and for risk management tools.

The regulations repeatedly set out the increased delegation of power to the Commission concerning market and crisis management, the establishment of rules concerning POs, their recognition, and the allocation of aid and even controls.

1.4. The objectives and the economic logic of the proposals are theoretically consistent

The new CAP's objectives (viable food production, sustainable management of natural resources and climate action, and balanced territorial development) are not open for debate. The reform extends the previous 1993 and 2003 reforms. It confirms market orientation while limiting its adverse side effects; it amends income support and better addresses environmental and territorial concerns.

The new features are a response to the shortcomings generated by the incentives of the CAP itself (skewed distribution of support, damage to the environment) or following the successive waves of reform (price instability and loss of price guarantees and market power). This is first and foremost the case for per-hectare payments, which to date remain strongly dependent on historic entitlements and whose resulting heterogeneity is considered inequitable and unrelated to efforts to preserve natural resources, and even in contradiction with them. Targeting has therefore been used to increase incentives to better protect rural resources, whose deterioration, particularly in terms of biodiversity and water quality, has been recognised. A clearer definition of active farmer, environmental bonuses, payments for areas facing natural constraints and the convergence of basic per-hectare payments aim to correct the unequal distribution of aid. They also aim to establish the same rules for farmers in similar situations and introduce positive discrimination to reward best farm practices and to assist fragile rural areas.

This is secondly the case for market management measures. The major decline in price interventions and the disappearance of control of supply have had two major effects: price instability and weak negotiating position for producers, who are no longer facing storage agencies or a public authority but downstream businesses endowed with market power. The situation in weak CMOs such as those of fruit and vegetables has spread to the entire sector. The single CMO provides for supervision, mainly in the hands of the Commission through the delegation of power, which could lessen these two shortcomings, but remain flexible enough to avoid the mistakes of the past where the full transfer of risks to the state led to a situation of overexposure to risks (extreme specialisation, or even single-crop farming) and waste. Maintaining tools for low-key internal and border intervention, implementing emergency financing and other mechanisms, and creating risk-pooling and income-insurance instruments are means to limit crises and their effects.

As regards the weak market power of farmers, the collective organisation of producers, which would be supported and encouraged (drawing on the experience of the fruit and vegetable sector and the recent dairy crisis), is expected to generate reinforced bargaining power and therefore better prices on average for producers. The latter are extremely dispersed and therefore in a basically weak position on the markets.

The Commission's proposal therefore deserves credit for realistically attacking key issues, by learning from past mistakes and by integrating the constraints of the treaties and of the obligation to introduce changes with a gradual pace. The real issue is not the direction followed but rather the intensity and extent of the reform: does it change the tools thoroughly enough to produce the expected results?

2. Direct payments: decidedly greener but still pale

Several measures will bring a real change for greening: 30% of the envelope allocated to environmental bonuses, the (progressive) introduction of the Water framework directive in cross-compliance, and the inclusion of ecological focus areas and of areas registered for nature conservation within the surface area eligible for basic payments. The clear and simple definition of indicators that can be easily observed[7] by GIS, should allow verification, including by the European Commission, that practices do in fact comply with greening rules. Any divergence linked to the failings or complacency of national authorities could thus be avoided.

7. Except for the status of organic farmers, who, in addition, receive special monitoring and certification.

2.1. Define ecological focus areas requirements over space rather than over farm business units

Nevertheless, will the required levels for crop rotation and the share of eligible surface allocated to biodiversity (7%) be applied effectively enough for the reform to produce real environmental benefits, *i.e.* an improvement in the state of natural resources? In any case it seems clear enough that the required thresholds in terms of crop rotation, particularly the minimum level (5%) of the minor crop, are quite low and that the associated loss of profit margin is moderate in relation to the 30% bonus on the entirety of eligible hectares. It would also seem that the majority of farms (over two thirds?) already fulfil the requirements, at least for a rate of 4 to 5% of ecological focus areas. The new system could therefore only pose a problem for the remaining third of farms that nevertheless cover over a third of total surface. It is with this fringe of intensive, open field or single-crop farms that environmental bonuses provide potential for effective change.

For these quasi monoculture open field areas, the environmental bonus mechanism (whose draft regulations do not go into detail) is an extremely convincing incentive, as the environmental bonus of 30% could be lost for all eligible hectares. This gives leverage to ecological focus areas on bonuses for the entire eligible surface and translates the Commission's imperative intention to practically impose minimum thresholds for all those requesting direct payments. The incentive granted by the environmental bonus which should work as a bonus in addition to basic payments appears to be much stronger than the loss of gross margin on some 4 to 7% of hectares, which in addition can be chosen from among the less fertile cropland. A gain for biodiversity and landscape diversity, or even reduced soil erosion is conceivable in these areas of major specialised or general arable crop farming. The practical choice of the location of specific areas for biodiversity and their position in relation to slopes and water resources will be essential and farmers should be entitled to advice on the restoration of ecological focus areas so as to reinforce environmental benefits. Two major reservations that have not been considered remain, however, but they could take the form of amendments.

AMENDMENT I: THE DEFINITION OF ECOLOGICAL FOCUS AREAS SHOULD NOT APPLY TO FARMING UNITS BUT RATHER TO A SPATIAL GRID.

If the obligation to devote 7% of land to ecological focus areas is applied to the economic unit and not to the spatial unit, there is a major risk of once again encountering the flaw already observed in the 1990's implementation of set-aside which saw crop farmers from the best plains purchasing low-quality land in remote regions in order to comply with the set-aside obligation at business level, without changing the cultivation system of the main farm. The benefit for natural resources and biodiversity conservation would then be cancelled, or almost. But in this case it would also be a good idea to take into consideration the heterogeneous agricultural potential of land plots in a given area. In this way, for example, the overall minimum of 7% could be imposed to a relatively large grid (from 100 to 1,000 hectares, a size that would encompass that of the watershed of a local tributary) and tolerate a compulsory range (from 2 to 12%) on smaller surfaces, so as to obtain for example a minimal amount of hedgerows and a connected network of ecological focus areas without removing too much fertile land from production.

It could then be ***possible to exchange*** entitlements and obligations so that the lands better suited to ecological focus areas, because of their ecological value or their low fertility, are reserved for this in a given zone, while the more fertile, flatter lands that are less susceptible to erosion or less likely to improve the quality of water or of living systems are kept for cultivation purposes. In this case, the reference grid should remain small in order to keep a minimum of pockets of biodiversity, landscape and soil protection elements in areas of intensive one-crop farming.

Such a possibility of obligation exchange would hardly need any additional financial incentives and would not bring about high transaction costs. Indeed, once the rules and entitlements of these exchanges were clarified, there would be a clear incentive for farmers to take part in these exchanges, as they already do on a yearly basis for simple technical or agronomic reasons with compensation in money or in kind. This incentive would stem from the difference in added value created between the best lands (with no fallow land) and the lower quality lands that would instead fulfil obligations concerning the required ecological focus area thresholds.

However, without an additional tool[8], there would be no incentive to optimise the environmental gain through these exchanges, unless there is a negative correlation between strong agricultural potential and strong ecological potential. Although this is possible it does not seem to be the general case. The costs of the transaction would not be considerable as the monitoring of these exchanges would require hardly more administration and control than that of declarations of eligible land for direct payments. The risk pertaining to the flexibility of obligation exchanges nevertheless exists if strong subsidiarity prevails in defining obligations and checks, when complacency is dominant in a member state or where institutions are less powerful than interest groups. This has sometimes been the case in the implementation of the European agri-environmental policy.

AMENDMENT II: Obligation exchanges should be authorised between farmers to create ecological focus areas on a WATERSHED GRID, by applying the average rate of 7% to this scale and by allowing, as a result, a variable rate with a lower minimum threshold for smaller spatial scales.

8. The added value acquired by keeping the best lands cultivated is a private good that naturally will be subject to transaction between the stakeholders. The biodiversity gain or the advantage for natural resources would be public or quasi-public and would require regulatory or fiscal means in order to act in the collective interest.

The second reservation regarding the system envisaged in the proposal, is linked to the first. It concerns the lack of incentives for creating ***ecological corridors***, which are essential for biodiversity expression and the preservation of resources. A spatial application grid and incentives for creating contiguity with ***ecological focus areas*** would represent a quantum leap in positive effects on biodiversity, or even water resources, as there is complementarity of services between areas that have been set aside as reserves in a contiguous manner. The fauna could move freely, become diversified and prosper and the ecological benefits of a particular plot of land would run a lesser risk of being cancelled by the pollution of a neighbouring plot. This would mean a move towards the zoning of rural areas depending on the potentialities and fragility of resources (water, soil, biodiversity) and environments, although steps have already been taken in this direction. This would generate positive externalities and alleviate the negative ones[9].

AMENDMENT III: Incentives should be implemented to create ecological corridors (through bonuses or other benefits) and the contiguity of ecological focus areas of several farm holdings.

2.2. Weaknesses of the scheme for permanent grassland and of the integration of the Water framework directive

The chapter on permanent grassland is of a different nature as it concerns the quasi-ban on ploughing. The proposal therefore bans a change of environmental service, without seeking to reach a more satisfactory level. This in fact would require the restoration of grasslands, at least partially, in areas where grasslands put into cultivation in order to cash larger single

9. Such zoning was recommended in: Ortalo-Magné F. and Mahé L. P., *Politique agricole, un modèle européen*, Presses de Sciences Po, Paris, 2001.

farm payments. In this respect, a reading of Article 31[10] of the regulation on Direct Payments implies that the reference date for this ban of grassland conversion is in 2014[11], which would give rise to opportunistic conversion, as was seen in the past, if only to avoid expected future constraints. But Article 93 of the financial regulation concerning cross-compliance is more reassuring as it takes 2003 as base year for former member states and 2004 for the new members who joined that year.

It is regrettable that the proposals do not include any incentive scheme to restoring former grasslands that were converted to cultivation in order to access single payment entitlements or to be declared as potential land for livestock manure spreading. Restoration into permanent pasture would particularly be in order for land in narrow, sloping valleys, prone to erosion and nitrogen losses. It has been recognised that the ecological services rendered by grasslands are generally higher than those of cultivated lands, particularly in the case of crop specialisation. Although it is not made explicit, it is possible that the combination of payments from pillar I and the AEMs of pillar II concerning grasslands could be used to this end. It would then be up to the member states to provide bonuses for grassland areas, a regrettable shortcoming of the 1993 reform, which, on the contrary, encouraged the cultivation of corn[12] with no reason of general interest.

10. Article 31 states: "Farmers shall maintain as permanent grassland the areas of their holdings declared as such in the application made (...) for claim year 2014, hereinafter referred to as 'reference areas under permanent grassland'."
11. This is all the more surprising as the proposal sets out that holdings that are artificially divided after the publication of the regulation proposal (October 2011) in order to avoid capping will no longer benefit from payments.
12. Guyomard H., Mahé L.P., "La nouvelle instrumentation de la Politique Agricole Commune", *Economie et Prévision*, 1995, n° 117-118, pp. 15-29.

AMENDMENT IV: In order to maintain the incentive to restore former grasslands that have been converted to cultivated land[12], in addition to the rule of non-conversion of grasslands, a bonus should be added for permanent grassland surfaces, in conjunction with basic direct payments and environmental bonuses, at least in sensitive areas where arbitration between grassland and crops is relevant.

AMENDMENT V: An assessment of sloping lands in valleys should be conducted and an incentive mechanism should be implemented to restore those areas of extensive livestock rearing to grasslands.

In the current draft regulation, the combination[14] of requirements for environmental bonuses is not made clear, nor is their aggregation through an **equivalence scale** in a global indicator of a service in a given area. We know that this is tricky but still possible. It is difficult to see how we can do without this, in practice, if a farmer does not fully comply with one but partially several of these requirements. It can be considered that the application regulations will specify the manner in which to calculate the penalties to environmental bonuses resulting from partial compliance with these obligations. The gradation of these penalties, which is the inverse image of the green point payment system, necessarily amounts to creating such an implicit equivalence scale. If a requirement was limited to respecting just one of the practices, such as crop rotation, which seems relatively inexpensive, the constraints of the reform would be marginal, the fact of maintaining or creating ecological corridors would be compromised and the environmental benefits disappointing. In this case, criticisms that talk of a simple 'green washing' of the CAP would be justified.

13. This amendment is relevant and remains within the framework of basic direct payments and environmental bonuses. But an incentive system adapting the payment levels to the environmental benefits of various land uses would be preferable *(see below)*.
14. The regulation states (Article 29, paragraph 2) "member states shall grant payment to farmers observing those of the three practises referred to in paragraph 1 that are relevant for them."

The conditions required for environmental bonuses are based on some land use practices but do not mention the use of water resources. Admittedly, the general cross-compliance defining the good agricultural and environmental condition (GAEC) standards implies protection of water quality and sometimes the measurement of water withdrawals for irrigation. Article 93 of the financial regulation announces that the Water framework directive of 2000 and the Pesticides framework directive of 2009, in compliance with sustainable development, will be part of cross-compliance. But the text of the draft regulation is worrying as it calls for the integration of requirements comprised in these directives "once this directive is implemented by ***all*** member states and the obligations directly applicable to farmers have been identified". Past experience has shown that this may take a certain amount of time. Various assessments, including of rural development plans, have shown that the cross-compliance of aid has had little impact on reducing pollution. There is reason to fear a tendency to procrastinate, either actively or passively, in certain states. Delays in implementing good economic principles for managing water resources as part of the Water framework directive, which include the economic optimisation of water use and cost recovery, will only prolong the tendency to over-exploit groundwater and waterways for irrigation purposes, or to use them as receptacles for pollutants. A major part of rural environmental protection will be slow to make its appearance in the justified services whereas direct payments are justified as a compensation for this service.

3. Capping of aid per farm and convergence of per-hectare support: towards more homogeneity and equity?

After several relatively unsuccessful attempts, the Commission is once again proposing capping of per farm aid and an end to the rationale of historic references that translated into major differences in rates and in the amount of aid given to different countries, farm orientations or regions. The rate of convergence between member states deserves discussion and the Commission has chosen a justifiable compromise. The member states that had maintained historic references should be compelled to homogenise the rates of aid between farms or even regions. This justified development has only been delayed by the member states.

3.1. Capping and employment: diversion of a good argument

The capping of direct aid per farm holding has always been a bone of contention between member states, for some very large ones are concentrated in the UK, in the north of Germany and in certain Central and

Eastern European states. These member states have always succeeded in undermining a serious level of capping[15]. The reasonably firm declarations about reintroducing it have given rise to an apparently generous request – by the European Parliament in particular – to take employment numbers on farms into account, in order to reduce the impact of capping for those farm holdings with the highest employment numbers. In practice, the fact of correcting ceilings through labour expenditure will almost completely nullify the impact of the measure for it is clear that a farm holding of 1,000 hectares employs between 5 and 10 employees and therefore benefits from a greatly increased ceiling[16]. In any case, a farm holding with a commercial or private status would continue to pay farm workers at the local labour market rate. These rural wage earners with no land do not benefit in any way from CAP payments. Per-hectare aid to encourage agricultural employment cannot be an instrument targeted on the objective mentioned. In fact, it is the owners of land resources or those with production rights who will see their capital increase – a strange policy with an apparently social aim. The only justifiable way to introduce the measure would have been to exempt holdings organised as companies with an almost equal sharing of the operating profit among employees, as is the case in cooperatives, which, *de facto*, fulfil these conditions.

AMENDMENT VI: Payment ceilings should be raised to account for labour only for farm cooperatives.

The proposal thus foresees a capping exemption scheme for 'outermost' regions and the smaller Aegean islands. It is difficult to understand the logic behind this provision, for the very aforementioned reason that the

15. The minister for Agriculture from one of these member states was even heard criticising the resulting penalisation for "competitive farm holdings" whereas real competitiveness is appraised on the basis of costs and should not depends on subsidies.
16. The budgetary annex of the financial regulation foresees that recovery of funds shall be limited to 1 bn out of the 302 bn in direct aid for the 2014-2020 period, *i.e.* 0.3%.

only beneficiary of these ceilings remains the landowner or the owner of the right to use the land. In addition, environmental bonuses are also excluded from capping. If it were made sure that the latter payments were the exact counterpart of the extra cost incurred by these obligations, this provision would be justified. But there is every good reason to believe that the foreseen environmental bonuses will in most cases largely overcompensate the extra cost of compliance *(see below)*. Under these circumstances, non capped 'green' per-hectare payments will provide a rent to large farm owners, which will enhance business equity and land values.

3.2. Homogenisation and convergence: possible redistribution among regions, countries and specialisations

The end of the use of historic reference for payments entitlements is major progress. The member states will have to share in an almost equal manner the new per-hectare payments, at least in each region, if not in the entire country. As a result, disparities between farms receiving per-hectare payments from the first pillar due to former specialisations will be reduced between 2014 and 2019, either within a region or between regions if homogenisation takes places at country level. The envelope of basic payments and environmental bonuses will represent between 80 and 90% of the first pillar and will cover an increased number of hectares. In addition, the member states could transfer up to 10% of the first pillar towards the second. The average per-hectare of the sum of direct and environmental payments for a given country could become notably inferior to the current single farm payment level. If a uniform rate is applied at national level, the redistribution between production systems and between regions would be significant[17], especially in member states, like France, which have kept the historic reference system. Yet, because of the concentration of farm holdings, one inescapable inequality concerning the individual distribution of public funds among farmers shall remain since future capping will be of no great impact and total aid remain nearly proportional to farm size.

Convergence between former and new member states concerning per-hectare support has been called for by the European Parliament, by evoking apparently commendable arguments of equity. But identity does not always mean equity. The examination of a poll tax, making all citizens pay the same amount, whatever their income, amply shows that it is an equal but unfair measure. Therefore, the identity of the amount of per-hectare payment between member states does not mean equal treatment. In fact, there is no reason to immediately align per-hectare payments, when the cost and remuneration levels greatly differ between countries due to per capita differences in GNP (on average lower in the EU-12 than in half of the EU-15). It is therefore unjustified to harmonise the level of per-hectare payments straight away, whether income equity or opportunity costs entailed by requirements in agricultural practices are taken into consideration. Convergence must be progressive and should remain in tune with the rate of GNP per-capita convergence, with a possible helping hand for new member states, in order to avoid market disruption of primary factors (land, labour, capital) and to avoid unwarranted windfall gains.

This notion of convergence of payments between new and former member states has been the subject of rather demagogic political stances

17. As an example, for France, the average SFP was approximately €290 in 2011. In 2019, assuming that the envelope of basic direct payments + environmental bonuses make up 88% of total payments and that new eligible area is between the surface eligible for SFP and the total UAA, the basic direct payment could be within a range of €140-€170 and the environmental bonus between €70 and €80, if homogenisation is applied on a national scale. Added to this are other targeted payments from pillar 1 and those from pillar 2. Large crop farms and intensive livestock farms would then see a significant reduction in aid.

where national back thoughts regarding net financial balances were not lacking. The opposition of certain member states to the transfer of per-hectare support into the second pillar is indeed an indicator of this pursuit of national interest, in this case assimilated to financial transfers. More generally, it is a symptom of the widespread practice of trying to capture the Community windfall, which impedes the quality of Community decisions. The Commission's proposal, which corresponds to a one-third catch up over 7 seven years for countries lagging behind, is in fact less *ad hoc* than it seems, as the pace indicated (catch-up over 25 years approximately) is already much faster than that of convergence of average per-capita GNP levels between former and new member states. The growth differential of over 2% per annum observed over the 2007-2011 period suggests (if it continues) that the catch-up could take almost 50 years[18]. The rate of convergence of single payments between members states in the proposal therefore seems reasonable.

Table 1
Difference in GNP/*per capita* between former and new member states and possible convergence

	GNP per Capita 2010 (in thousand €)	Annual growth rate 2007-2011 (in %)
EU-15	29	1.62
EU-12	9	3.97

Source: European Commission, "Agricultural Policy Perspectives, member states factsheets", May 2011.

18. Expressed in Purchasing Power Standards (PPS) the GNP per capita ratio is only 1:2 between the EU-12 and the EU-15 countries, as opposed to 1:3 for current exchange rates. By taking PPS into account, the estimated convergence would be faster. EU-12 are the new members mostly from Eastern Europe.

4. Insufficient targeting for efficient use of public funds

The reorganisation of first-pillar aid can be considered as a real step forward and it marks out a path towards the future. However, a policy that distributes public funds in relation to the public interest of the objectives pursued is still a long way off. Windfalls and unwarranted earnings, fuelled by over-compensation still remain. Due to the fact that aid remains transferable, it affects capital and private interests are at stake. The race for land acquisition is an adverse side effect that is badly controlled by the agricultural policy. Better targeting must take place to ensure better use of tax resources.

4.1. Costly greening for a given service and with possible adverse effects

The method chosen to obtain at least one of the three practices is the reduction or the elimination of environmental bonuses, or even a reduction in basic payments in the case of blatant fraud. It in fact amounts to adding a layer in cross-compliance, without actually mentioning it outright. This system was preferred to a system[19] of targeted contractual agri-environmental payments allocated uniquely to areas devoted to the required practices (grasslands, crop rotations, ecological focus areas) and based on a contractual choice. To induce farmers' participation in such a system, the payment should have covered the additional cost or the income loss resulting from the required practices. This is, in principle, the case in agri-environmental measures (AEM), which are voluntary programmes. The payment should have covered only the loss of gross margin attributable to the compulsory designated practice. Taking the case of ecological focus areas, and assuming that by becoming unproductive their contribution to the overall gross margin is cancelled, the corresponding payment, even if it is higher per-hectare than the 30% of the environmental bonus, would only apply to 7% of the total surface. It would necessarily cost less than the environmental bonuses paid for 100% of the eligible surface[20]. It seems likely that the envisaged level of environmental bonuses is a major overcompensation for the losses incurred. This overcompensation will give lands reserved as environmental focus areas a value that greatly exceeds the average price of arable land and which could lead to outbidding for uncultivated and remote plots of land if the spatial grid is not applied. Just as in the time of the Malthusian fallow of the 1990's CAP, purchases of plots of land to fallow in remote regions can be expected to occur, as the cereal growers of the Paris basin did in Vendée to formally comply with set-aside obligations defined per holding and not per zone.

19. This is not the case for organic farming units where targeting is effective and where there is *de facto* equivalence between the proposal of the mechanism and contractual environmental payments.
20. As an illustration, taking a 100-hectare arable crop farm, gross margin (excluding subsidies) of €400/ha and an environmental bonus of €75, the cost of targeted payment for the hectares in an ecological focus area would be 400 × 7 = €2,800 or slightly less. The cost of the environmental bonuses of the proposal would be 75 × 100 = €7,500. The value given to a ha in an ecological focus area by discounting total annual aid could reach at least (7,500/7)/0.10 = €10,700, with a discount rate of 10%, and twice as much if the chosen discount rate were 5%. The average loss per eligible hectare which is €28 in our assumptions (€35 if the gross margin is €500), can also be compared with an environmental bonus of €75.

It therefore clearly appears that the objective of the proposal was not first and foremost to obtain environmental services at the lowest cost, but rather to maintain the same overall level of support with requirements that are not very binding. Another possibility would have been to make the new requirements part of the existing cross-compliance, but that could have been viewed as adding more bureaucracy and would have made 'Brussels' unpopular. In addition, ambiguity persists on the possible accumulation of environmental bonuses with the AEMs of the second pillar in certain areas.

Several distinctly positive points have been acquired with the greening of the reform. It is first of all a strong signal in favour of conservation practices in part of the rural territory. It is the extension of the eligible surface to marginal areas or to pockets of biodiversity on the farm holding, with the major advantage of eliminating ineffective financial incentives to cultivate these areas, or to remove embankments in order to maximise eligible hectares as was done in the past. It is also the advantage conferred to organic farming which finally follows on from a long period of relative penalisation when payments were 'compensatory'. Nevertheless it would have been better to introduce more explicitly in the conditions the amount of hedgerows (easy to check), or even scattered trees (it is known that in France scattered trees count for 10% of the area of permanent grasslands and only 1 to 2% in arable lands). Encouragement for restoration of grasslands, at least for certain rural areas, would also have been easy to integrate into a system of targeted agri-environmental payments as aforementioned, matching the loss of margin and thus adjustable according to local conditions.

4.2. Transfer and capitalisation of non-contractual payments

The attribution method for new direct payments remains similar to that of current single farm payment (SFP), as the declaration of eligible surface gives the entitlement to receive payment, on condition of compliance with the associated requirements. The Commission clearly excluded the option of contracts[21] that would commit farmers to respecting the three practices in return for aid. In addition, environmental bonuses will go hand in hand with basic payments with a view to encouraging all farmers to abide. These choices may be viewed as a sign of bureaucratic tendency and a preference for regulation instead of flexible incentive measures such as the co-financed instruments of pillar II, while at the same time allowing for better control of the annual budget. More constructively, this option may reveal a certain scepticism in the Commission with regard to voluntary, contractual and co-financed measures that assessments of rural development plans have fuelled. It can also be viewed as a way to force the hand of member states that are the least capable of organising major voluntary participation of farmers.

These arguments are valid, but just like SFP, the consequence of this option is that new payments are transferable – at least within a region or country – and therefore marketable. By contrast, contractual payments could have avoided this by being limited in time but renewable, *i.e.* linked to the continuity of the service provided. This last option could have eliminated or at least strongly reduced the capitalisation of payments seen in land prices, a hidden but well-known mechanism that contributes to increasing production costs or putting a strain on available income, particularly through new property acquisitions. Efficient farmers with an acceptable farm size can reach a good income through payments, income that they may be tempted to invest in land property, either to increase their capital or to increase the size and efficiency of their business.

The result is a paradoxical situation where fluctuating and aid dependent farm incomes coexist with a tight land market where prices are on the

21. This was the option preferred in study No. 64 of *Notre Europe* in 2008 and it is also that of the French agricultural think tank Société des Agriculteurs de France, *Un nouveau pacte pour l'Europe !*, 2010.

increase. Ultimately, the capitalisation of payments in land or in the farm equity makes continuation of these payments necessary to ensure financial profitability of the farm for the buyers at the time of transmission. This is the pessimistic picture that arises from the simulations of the impact of a total elimination of or a major reduction in payments on farms accounts. This pessimism arises because it is difficult for these static simulations to incorporate the potential of various adjustments in farm businesses and to treat as truly endogenous mechanisms which are left exogenous or given. This capitalisation will also concern environmental bonuses insofar as the requirements are already fulfilled for the majority of farms, if the over-compensation referred to is widespread out and if they are excluded from capping.

4.3. Targeting based on multiple and sometimes ambiguous objectives

4.3.1. The ambiguity of basic payments and environmental bonuses

In the proposal the ambiguous role of basic payments or even environmental payments, can be noticed because of their implementation rules, of overcompensation built in the green payments, of the limited reduction in average per-hectare payments and of the concentration of direct payments that will remain despite virtual capping. The Commission and the ministers of agriculture are extremely attached to global income support, for they fear the consequences of a large reduction in pillar I payments. Aid dependency, which is visible in the balance sheets of the most efficient farm holdings of the great European plains and of the large, highly-productive farms of Northern Europe, makes the need to perpetuate payments to appear as inescapable. It partly explains the uneasy position of the decision-making bodies in dealing with contemplated changes. There is no empirically credible scenario of the likely situation of European agriculture without generalised per-hectare aid. Yet, if there was a reduction in payments, it would be paradoxical if farms that appeared to be the most efficient were no longer competitive cost wise, after the necessary gradual adjustments. This would mean that the CAP system has been encouraging the emergence of type of farm structure that is economically non-viable with the remaining tariff protection. This is deeply disturbing and questionable for the majority of the most efficient farms on the great European plains. But it is easy to understand that this is so for grass-fed cattle rearing farmers who cannot face up to competition from production methods and structures in certain parts of the world. As extremely high land prices persist in highly-developed farming areas, it is very likely that there is room for cost reductions both through adjustment of production structures and factor use, and through lower cost of land, both direct (lower rents) and indirect (lower acquisition prices at successive generations). This could be the result of the progressive and planned reduction in 'income' support, which in fact is paid on a per-hectare basis.

This issue would not be resolved totally but partially if the aid was really based on the public services provided, whether concerning the environment or food security. This last objective is legitimate but is not to be confused with a generalised aid for the food production system. And yet, that is the case today, on the pretext of targeting income, but with regressive distribution. An agricultural policy targeting these public goods would certainly be at least as complex as the current one, and it should be recognised that the information to implement it correctly is partly lacking and that the administrative costs of its implementation would increase as the targeting[22] became more precise.

22. See Y. Desjeux, P. Dupraz, A. Thomas, "La difficile question des biens publics en agriculture : réflexions autour des outils économiques", *Working Papers,* SMART-LERECO, n° 10-14, INRA Rennes, Décembre 2010.

4.3.2. Young farmers, small farms, areas facing natural constraints: insufficient targeting

The scheme providing aid to young farmers, to 'small farms' and to areas facing natural constraints could be better targeted. A generalised aid for farmers starting a business, whatever the local or personal conditions, is almost indefensible. It is a further case where identical treatment goes against equity, or even efficiency in the use of public funds. In fact, it has been observed that variations in the young farmer premium have repercussions on the purchasing cost of farms taken over. Furthermore, should there be start-up support in all cases? In areas where farmland is rich, where the price of land or taking over a farm is extremely high compared to the European average, farm transmission will occur even without supporting the newcomer and there is even strong competition between the potential buyers. In these conditions, aid to young farmers only amplifies tensions on the land market or on the market for farm takeovers. This is also the case in suburban areas or regions where tourism competes with agriculture.

On the other hand, targeting and increasing aid to young farmers in remote rural areas where conditions are difficult and where abandonment is looming, is much more justified and consistent with the objectives of rural development and cohesion. The same goes for the payment targeting regions facing specific natural constraints. Assessment of rural development plans has underscored the need to have a clearer definition of disadvantaged areas. Such areas where agriculture faces natural constraints are not always poor from an economic viewpoint, in particular where other sectors such as tourism have prospered. In such regions the public issue is more solidarity within the region than cohesion between regions of Europe. The definition of areas facing constraints should comprise an economic component, in order to target this payment to areas where agriculture is the main or only ***productive base*** for economic development. In the same way, the possibility of a lifetime benefit could have been introduced to help small retired farmers or those close to retirement, in order to reduce the motivation to keep inefficient production structures in operation.

5. Risk management and low market power: limited improvements regarding a structurally weak position

Since the major reform of 1994 and the end of guaranteed prices, Europe has become more permeable to world market disturbances. The Commission has chosen to keep intervention instruments at a minimum security level, easily activated in times of crisis, and to encourage member states and farmers to set up risk-pooling funds, by providing aid for this purpose. Europe is currently experimenting in this field and must ensure that it does not encourage over-exposure to risks and that it maintains the viability of private risk-management systems through the banking and insurance sector.

The dissymmetry between a fragmented agricultural sector and concentrated clients and suppliers remains a handicap for the competitive distribution of added value throughout the agri-food chain. CAP is stuck between the rationale of texts on competition prohibiting collusion and the need for farmers to group together against often very concentrated purchasers. The proposal's measures will not resolve this contradiction. Disciplining excess market power should be better linked to the empirical evidence of excessive mark up and profit margins.

5.1. Risk management that combines prevention and an anti-crisis mechanism

The challenge of the proposed mechanism is to strengthen the resilience of farms facing unstable prices, while at the same time remain compatible with World Trade Organization (WTO) commitments. It must also maintain a market orientation in agriculture to avoid past vagaries resulting from inefficient regulation and the waste of public funds. The proposal has drawn on past experience and contains a balanced combination of instruments that should attenuate the consequences of the more serious crises, without preventing insurance cover providers (banking and insurance companies) from developing their offer.

Market intervention instruments are maintained but for a small number of commodities and operational funds are also kept in place for fruit and vegetables (a sector where prices are particularly variable and exposed to sporadic collapses). These devices, provided their use is limited in scope can be justified as a complementary instrument to individual and collective risk management initiatives. Resorting to export refunds, even occasionally, however, is scarcely compatible with necessary international cooperation. Nevertheless, it is hardly more reprehensible than the export restrictions that structural exporters unashamedly resort to in times of world shortage in order to curb domestic prices or levy taxes. These restrictions contribute to destabilising international prices and to threatening food security of net importing countries. Referring to the principle of open exchange or free trade, on the one hand, and refusing to negotiate a discipline on these export restrictions within the WTO, on the other, is purely double-speak.

The creation of a crisis reserve outside the annual agricultural budget for crisis management and the possible mobilisation of the Globalisation Fund are two excellent initiatives. They comply with the principle of targeting and allow avoidance of budget annuality, which is highly restrictive for this type of instrument. They also lessen the risk of conflict within the WTO that counter-cyclical payments would have created. The stepped-up powers requested by the Commission in the management of the stabilisation tools is a good thing in order to avoid cumbersome decision-making in special committees where member states' delegates are inclined to over-intervene when prices are on the decrease. The other side of the coin is increased exposure for the Commission to electioneering criticism that unfairly fuels mistrust of the European institutions. Entrusting this management of market crises to an external agency under an enforcement mandate such as that of the ECB would have toned down these disadvantages, without however totally eliminating them, as the Eurozone crisis has shown.

It can also be argued that the co-financing (at 65%) of mutual funds within the framework of rural development is extremely generous. Indeed, SFPs already provide a very stable income component and it has been observed that an excessively high guarantee against risks encourages risk exposure in general and single-crop farming in particular. Extreme specialisation has well-known disadvantages for the environment and triggers subsequent requests for protection in times of low prices. It is also necessary to ensure that these devices to cope with unstable markets do not benefit the private or public-private institutions in charge of these funds more than they do the intended farmers, as has happened in certain foreign countries.

5.2. Partial recovery of market power

The Commission's proposal seeks a compromise between Article 101 of the Treaty ensuring that free competition prevails, which also applies to agriculture, without preventing the creation of a single CMO (Article 43) or the fulfilment of the objectives of the CAP (Article 39). This uneasy compromise leaves room for interpretation. Indeed, as the texts prohibit price fixing or breaches of competition, farmers who create organisations to sell their products find themselves in an ambiguous situation and a sort of legal insecurity. It is necessary to rebalance the market power between farmers that are naturally dispersed and fragmented, and the downstream and upstream firms of the food chain where there is high concentration, particularly in the distribution sector[23]. These firms of the food or the farm input industries have built on the strength of economies of scale and Marshallian economies to gather large market shares and hence capture obvious market power. The dissymmetry observed in price transmission in times of crisis and the exceptional profitability rates in the distribution sector can only be explained by oligopolistic price rents, which are greatly explained by the extreme concentration of central buying offices[24].

Fruit and vegetable producer organisations (PO) have had special powers for a long time, especially concerning market withdrawals and co-financing aid. During the last milk crisis, the price reversal after the boom highlighted the weak position of producers and the 'miracle' solution claimed by authorities was that of the compulsory implementation of written contracts. The problem is that it is not so much contracts that provide protection – as fruit and vegetable producers have experienced when facing the distribution sector that unjustly can get away with not respecting them on occasions – but rather it is the possession of real countervailing bargaining power as a group that ensures their rights are respected. This power is in particular necessary for them to express credible threats of retaliation against central buying offices threats to cease business relations. It is not an isolated producer, or an SME that can afford to do this, even if in

23. The French Competition Authority in its Opinion No. 10-A-26 of 7 December 2010 indicates that in France, the four major distribution groups control 65.5% of the market, and the top seven control 88.2%.
24. E. Chantrel and P.-E. Le Coq, "Les marges dans les filières agro-alimentaires en France", *Economie et Prévision*, n° 189, 2009, pp. 141-149.

principle they are protected by a contract, as the cost of enforcing by suing it is too high for an individual isolated farmer.

The quantitative limits of the shares of supply controlled by milk producer organisations are compatible with some market power and with a certain degree of protection, but the definition of these upward limits seems rough. Avoiding excessive market power of POs would have been better tackled by referring to a more precise definition of a dominant position and a relevant catchment area. It would however have required some economic justification and adequate monitoring[25].

Does the single CMO proposal change the situation concerning farmers' weak market power? There is progress, granted, but certain ambiguities remain and it seems that things have been interrupted. The mechanism improves the capacity for collective action by giving farmers more means to circumvent organisational costs due to their dispersion (a way of containing the tendency towards 'free rider' behaviour in large groups). POs in all sectors can now benefit from the possibility to extend rules and contributions to non member producers, but their area of competence is limited and does not include the negotiation of contracts or prices as is the case for milk. They can establish standard contracts and take protective measures for quality labels and certification as well as for designations of origin. Another important development is enhanced legal security for POs. The Commission (Article 144) "therefore has exclusive competence, subject to review by the Court of Justice, to determine whether" the conditions for respect of competition rules (Article 101) are being met.

25. See M.L. Allain, C. Chambolle and T. Vergé, *La loi Galland sur les relations commerciales, jusqu'où la réformer ?*, CEPREMAP, Edition de la rue d'Ulm, 2008. These authors have observed the strong concentration of the distribution sector in France, particularly in certain local conditions and do not expect positive results of the law for consumers without an increase in competition, including through a reduction in entry barriers. It is likely that these observations also apply to supplier-distributor relations.

But it is not understood why that which was deemed useful and possible in the milk sector cannot apply to other 'live products'. Nothing is said about the reasoning behind this. Will it take another major market crisis before it is envisaged? Without clearer powers to carry on the selling of production (in particular negotiation of prices) it is thus difficult to see how the POs can carry out the missions expected of them such as planning production, adapting supply (especially in terms of 'quantity') to demand, and in particular stabilising prices.

Concerning inter-branch organisations, it is understood that they cannot be the place for negotiating a single price applied to all producers and purchasers, just as certain farm organisations would like ignoring the negative effects of excessive regulation. Prices must in fact reflect the created value of products transformed downstream and therefore remunerate efforts made in efficiency and quality, which are a matter of business enterprise and not of sector organisation. On the other hand, inter-branch organisations could have the role of establishing standards of good practice in business relations, of being first instance referees or mediators in conflicts, and of disseminating information, monitoring and assessing business practices and encouraging fair practices. All of these actions would help to ensure fair trade when concentration leads to excessive market power for one of the parties, often downstream in agriculture. The draft regulation limits the scope of inter-branch organisations to some services shared in common by the food chain, such as providing general purpose information. It was possible to at least ensure that purchasers in a dominant position against isolated farmers apply equitable 'standard' contracts drafted by the inter-branch organisations. This would strengthen the weak bargaining power of the isolated farmer, just like that of isolated wage-earners has been thanks to the minimum wage.

The approach of the single CMO regulation is to rebalance market power in favour of farmers. This could bring a relative improvement in value sharing to the farming sector, despite concerns raised due to deviations. This does not however resolve the problems of SMEs in the agri-food industry. In addition, inducing the opposition of two oligopolies in the food chain may occur to the detriment of consumers, through the mechanism of double marginalisation. Addressing the excessive concentration of the distribution sector is therefore a priority and it is more a matter for competition policy than for agricultural policy. But the latter cannot make up for the inadequacies of the former. It is clear that the competition authorities have enormous difficulty in discovering the economic proof of dominant positions creating unwarranted rents and excessive price mark ups. They are more at ease with legal proof, when they find it. There is major progress to be made in this direction and more caution by the competition authorities is desirable in the case of mergers, acquisitions and concentrations, which are often accepted with complacency, giving rise to 'national champions' which then escape regulation[26].

Lastly, it is surprising that the issue of high concentration and market power in farm input industries has been ignored. Once again the CAP will not compensate for the lack of competition and the over-tolerance of concentrations.

26. In its Opinion of 11 January 2012 on food distribution in Paris, the French Competition Authority recognised "that it has no effective power to act when competition-related concerns arise as a result of market structures rather than of operators' behaviour".

6. Maintaining the existing two pillars: a cautious compromise at odds with fiscal federalism

The two-pillar structure of the CAP instruments, both regulatory and financial, has been reaffirmed. The new feature is the creation of two funds outside the Multiannual Financial Framework (MFF) that can be mobilised for agriculture in the case of a market crisis, and that can be considered as forerunners to a third CAP pillar. Adding a new ambition to the 2013 reform by reshuffling the cards of funding CAP expenditure would have re-opened the Pandora's box of financial net balances due to the CAP. And yet, 2005 was a time of political tensions due to links between the CAP, the budget and rebates obtained by several member states[27]. These issues will resurface, nevertheless. All that remains, therefore, is to assess the possible limits of the cautious solution that has been chosen.

27. Mahé L.-P., H. Naudet, M.-A. Roussillon-Montfort, "The UK rebate, the budget and the post-2013 CAP faced with fiscal federalism", *in* S. Senior Nello and P. Pierani, *International Trade, Consumer Interest and Reform of the Common Agricultural Policy*, Routledge, Abingdon, New York, 2010.

The text of the proposal reaffirms that “pillar I covers direct payments and market measures providing a basic annual income support… and support in case of specific market disturbances, while pillar II covers rural development where member states draw up and co-finance multiannual programmes under a common framework”. It is expected that synergy with the second pillar instruments will be created with the reorganisation of direct payments.

The addition of new tools, new first-pillar payments, risk insurance in the second pillar and the two new funds outside the MFF, all add complexity and blur the basis of separation between pillars inherited from the past. More consistent articulation could have been imagined between objectives and instruments, within a supranational framework. Nevertheless, the elimination of antagonistic incentives between pillars (production aid as opposed to AEM) must also be acknowledged in the new mechanism, and the feasibility margin taken into account.

6.1. Two of the three criteria of distinction between the two pillars lose ground

The creation of the second pillar known as rural development under the Agenda 2000 package institutionalised a chapter that was complementary to market management, which had been regressing since 1993. It created budgetary instruments focusing on rural areas, the environment, and improving structures[28]. Pillar II therefore focused on rural public goods, by including the vitality of rural areas strengthened by cohesion, whereas pillar I targeted the viability of farm businesses, viability supposed to require price support through market intervention and increasingly sup-

28. A historic summary of the emergence of pillar II – rural development is presented in: N. Chambon and Ch. Tomalino, “Rural Development in EU policy: a retrospective”, *Policy Brief*, *No. 14*, *Notre Europe*, June 2009.

plements to prices through direct payments. The support in question did impact incomes and asset values of farm holdings, which are goods of a private nature, but the stated goal of this aid was also to maintain a viable farm sector in order to ensure food security, a public objective that is being emphasised again today.

This distinction between markets (pillar I) and rural public goods (pillar II) no longer exists in the proposal despite the explanatory statement. In fact, some of the first pillar direct payments clearly target environmental public goods and several tools concerning market failures can be found in the second pillar and even outside the MFF with the crisis reserve. For example, the eligibility conditions to receive the environmental payments of pillar I clearly target biodiversity and the protection of natural resources or even agricultural landscapes. In the same way, pillar I payments to areas facing natural constraints are targeted to vulnerable rural areas in the name of cohesion. Pillar II aid towards economic risk-pooling funds is clearly a remedy for market shortcomings and this is also the case for the two crisis reserves outside the MFF. Pillar II also includes aid to producer organisations, which have been given two important missions to mitigate the dysfunction of agricultural markets; that of supporting risk management schemes and the correction of excessive downstream market power.

The opposition between the market and rural public goods therefore no longer corresponds to the distinction between pillars, but this is more the pursuit of an historic trend than a new feature, as several rural development programme instruments and even the former structural policy already had a modernisation and innovation component aimed at strengthening the competitiveness of farms. The time has come to abandon this opposition in the definition of the pillars, as it is not vital for effective instruments and it no longer corresponds to reality. What counts is that the policy instruments first and foremost target objectives and then are designed and financed at the right government level.

The second rationale separating the pillars was budget annuality and the 'compulsory' nature of expenditure in pillar I, inherited from a time when prices were guaranteed, whereas the pillar II funds were part of a multi-annual programme. By creating two funds outside the MFF (pillar III) and by financing the proposed mutual funds (pillar II), the Commission drew the conclusions of the drawbacks of budget annuality in pillar I when difficult economic times in fact call for temporary support. But this was only partly done, for as the 2008-2010 economic situation highlighted, the annual fixity of per-hectare aid gave rise to abnormal situations of high prices combined with significant aid to the arable crops sector. These situations clearly emphasise the ambiguous nature already touched upon with direct aid and its role as 'income support'. The two new funds, which are outside pillar I and the MFF but which are consistent with market rationale, make the budget annuality constraint less burdensome. This innovation can only be welcomed, while awaiting a future shift of all or part of pillar I funds devoted to basic payments (in times of plenty) in order to create a 'reserve' that can be mobilised in the two crisis reserves (when markets are depressed). In short, a pillar III needs to be created. In reality, the constraints of annuality are already being circumvented.

The third rationale behind the distinction between pillars stems from subsidiarity and co-financing rules. This distinction is being maintained, as subsidiarity and joint national/Community co-financing remain the privilege of the second pillar. Direct per-hectare aid (pillar I), both environmental and non-environmental, is completely financed by the EU budget in the tradition of SFPs, whereas rural development actions are co-financed with variable rates depending on the programmes and on the wealth of member states. Pillar I expenditure represents over three quarters of planned total agricultural expenditure *(see table 2)*. It is this large pillar I budget that mostly fuels rear thoughts among member states concerning financial net returns during reform negotiations. It can also been noted that the crisis reserves are totally financed by the European budget.

The two issues of co-financing and subsidiarity, which go together to a large extent, are the most sensitive points of the CAP as they are the core of European integration, and are informed by scientific literature on fiscal federalism. The stakes are political, for net contributor member states have criticised the budgetary and economic cost of their membership of the EU, ever since the UK joined. They have negotiated and obtained compensation and the Commission regularly reassesses the financing rules of the budget and the added value[29] of public action at European level in comparison with national and local actions. In other terms, it tries to seek the right level of subsidiarity and the sharing of powers, while at the same time maintaining the Single Market. The stakes therefore are also economic in the sense that the financing rules and the policies implemented determine the net financial balances of the member states. The latter therefore adopt bargaining positions where the national or even the vested interests over-influence decisions to the extent of thwarting European public interest. The stakes are also administrative, for public action requires resources and has a cost which varies according to the instruments. It could thus be considered that rural development programmes and contractual measures have high administrative costs. In addition, the member states do not have the same quality of administrative and institutional resources, and this creates an unequal impact of decentralised measures such as those in the second pillar.

29. See for example the European Commission's recent and unconvincing argument concerning the CAP: *The added value of the EU budget*, accompanying the Communication from the Commission, *A budget for Europe 2020*, SEC (867) final, 29.06.2011.

TABLE 2: AMOUNT OF EXPENDITURE ALLOCATED TO THE CAP (MULTIANNUAL FINANCIAL FRAMEWORK 2014-2020; IN MILLIONS OF EUROS)

BUDGETARY YEAR	2013	2014	2020	TOTAL 2014-2020
MARKETS	3,311	2,622	2,699	18,764
DIRECT PAYMENTS (1)	42,535	42,876	43,269	302,027
RURAL DEVELOPMENT (1)	14,451	14,455	14,641	102,263
TOTAL	**60,229**	**59,953**	**60,608**	**423,054**

(1) by taking capping into account, which shifts approximately €1 billion over the entire period. Added to this expenditure (total period) is that of the common framework for research and innovation (5 bn euros), food aid (2.8 bn), and outside the MFF, the crisis reserve (3.9 bn) and the available portion of the European Globalisation Adjustment Fund (2.8 bn).

SOURCE: DRAFT FINANCIAL REGULATION (REVISED), ANNEXES.

6.2. Towards a logical structure of subsidiarity and co-financing in three pillars

Defining the logical structure for the CAP instruments and for the budget in the light of fiscal federalism is not an easy task and it quickly encounters limits in concrete situations[30]. It should however be possible to structure the links between objectives, policy instruments and financing rules within a supranational framework like that of the EU in a more appropriate manner than what prevails today as result of history. Meanwhile one should give credit for progress already achieved in the proposals regarding coherency between pillars, given the narrow political margin for changes.

In order to free CAP negotiations from the conflict of national interests in which they are often trapped, a more satisfactory sharing of powers and particularly of funding between the member states and the EU is necessary. The principle would be to entrust European public goods, *i.e.* those concerning all EU citizens, to European level, and to entrust local public goods

30. The first steps in sharing powers and financing in the light of fiscal federalism appear in Mahé, Naudet and Roussillon-Montfort, *Op. cit.*, 2010. In Study No. 64 of *Notre Europe,* the co-financing of the first pillar was proposed as a first stage.

concerning local or national populations to member state level along with the regions. For European public goods, the funding would be pooled between member states, and therefore the corresponding measures would be financed by the European budget. For local public goods, the funding would be national or regional, with Community co-funding. Of course, in reality there are intermediary situations and overlaps.

The European public goods concerned by the CAP are of two types: environmental and political-economic. Alleviating climate change is the archetypal example of an environmental European public good. The stakes can even be considered as global. Biodiversity in rural areas and even the diversity of landscapes can be assimilated to this for the most part, even if the latter has a local facet linked to recreational activities. The quality of water resources is linked to biodiversity and includes a European and local element. Linked to this, more generally, are regulatory-style measures conducive to basic protection of nature. Environmental framework directives such as the Water framework directive highlight the fact that EU competence is recognised in this field.

Securing food supply and showing solidarity towards areas with a weak economy, in the name of European cohesion, could be considered as political-economic European public goods related to agriculture. These public goods are also considered as ‘sovereign’ objectives at the heart of the state’s missions. Price stabilisation or at least the mitigation of market risks also come under this category, just like food security. These political-economic public goods would be financed by the Community budget.

These various public goods require funding at different rhythms over time. European environmental public goods, innovation and even food security deliver regular services, hence calling on annual expenditure. They would therefore follow the rationale of the current first pillar financed by the EU budget. The local public goods of the second, co-financed pillar are also consistent with a continuous service, therefore receiving regular funding, as is already the case in pillar II with multiannual programming. Other measures, such as stabilisation and crisis mechanisms require variable expenditure in relation to shocks on the economy. It is therefore necessary to have multiannual funds placed in reserve or based on Community resources that are quickly available. It is therefore necessary to continue along the same path with the creation of crisis reserves outside the MFF[31].

According to this rationale, the new environmental bonuses, the measures in favour of disadvantaged areas, the measures in favour of modernising businesses and of innovation, and the measures that are really targeted to European food security, as European public goods, would come under Community competence and funding. They would be covered by a much more limited first pillar than the current one, and funded on an annual basis. It is in fact very difficult to justify that basic payments as they are defined to date, come under the rationale of a more consistent first pillar and are therefore financed by the EU. They are neither targeted at cohesion nor at food security, even though this is the current official argument.

Policies concerning local rural public goods (water resources, agricultural landscapes, soil quality, rural heritage, etc.) would come under pillar II, as is the case today in the rural development envelope, but with a necessary adjustment of the current outlines that go beyond those of local public goods.

A new third pillar would be created and devoted to irregular Community expenditure, as it would focus on the management of serious market shocks and on risk mitigation, which are treated as European public goods.

31. The Commission has already raised this issue of lack of flexibility. In the accompanying document of the budgetary proposal of June 2011 (SEC 868), the following is written: “The principle of annuality of the budget does not allow for the automatic transfer of unallocated margins to the following budgetary year, the front- or back loading of expenditure or the transfer of unused commitment/payment appropriations from one annual budget to the next.”

It would be logical to associate with the two crisis reserves the other budget lines now scattered in the first and second pillars namely, market intervention of pillar I and aids for stabilisation and to risk management devices of pillar II which concern both European markets as a whole and world price shocks. It would therefore lead to increased consistency of the management of instruments, then easier to coordinate in times of market crisis. In addition to risks of inconsistency, aid for mutual funds, which are currently part of the second pillar and left to national initiatives, would surely be heterogeneous across member states and thus contravene the Single Market. EU competence would be a guarantee of homogeneity and a portion of the basic payments would be progressively transferred to pillar III in order to replenish the crisis reserves.

6.3. Beyond the rules of pillar co-financing, the new instruments are more consistent and better targeted

Preparatory discussions for the 2013 reform quickly highlighted a convergence between old and new member states to preserve the financing of aid from pillar I through the EU budget and to limit its transfer to pillar II. The new members put forward their limited budgetary resources and their fear of not being able to co-finance the rural development programmes. The older members were concerned about preserving their national envelopes, and therefore their financial returns. The demand for alignment of per-hectare support rates by many EU-12 states further illustrates the strategy of trying to capture European funds that contaminates negotiations and EU decision-making.

The Commission's proposal to first of all set the national envelopes and then define the new types of direct aid, with a certain flexibility given to member states, was the means to alleviate the adverse effects of persistent pursuit of national interests on the construction of a rational European agricultural policy. And yet it would be more logical to firstly define European objectives and then the appropriate measures, followed by an acknowledgement of the budgetary consequences. But this approach is impossible if the member states do not proportionally share the financial consequences of their negotiation position. Financial responsibility therefore needs to be sought. The issue is particularly serious for payments based on ambiguous grounds regarding public interest and with unequal effects, such as single farm payment (SFPs), entirely financed by the EU budget. This reveals weak governance at this stage in European integration.

While awaiting a reorganisation of funding rules, the Commission's new proposals have the merit of reducing several inconsistencies that existed in the CAP, between the first pillar measures encouraging intensification and the deterioration of resources, and those of the second pillar, aimed at attenuating these effects through voluntary action that nobody wants to carry out in the areas that most need it. Second pillar aids are known to have been less attractive than that of the first which was less demanding regarding counterparts. A perfect illustration of this is given through the treatment of quasi single-crop farming on the one hand, and grasslands or organic farming on the other.

Conclusion

The draft reform contains significant changes and creates a more systematic link between instruments and new objectives in sustainable development. It also comprises important innovations. The extent of these changes, both in compensation for environmental practices and in capping and risk management remains relatively limited, however. The expected effects will therefore be proportional.

The lack of legitimacy of SFPs has become obvious and this needs to be addressed. The precise adjustment of payments to the contribution of each farm to public service provision, whether environmental or political-economic, remains difficult to achieve. The reorganisation of payments paid per-hectare, but adapted in relation to practices and differentiated according to sector and over space, has therefore appeared as the only way forward. The major changes are greening and the end of individual historic references, thus allowing homogenisation, capping, positive discrimination towards disadvantaged areas and vulnerable sectors (partial coupling), and towards young and small farmers.

At the onset greening allows rectification of support given to organic farming, which had been penalised for a long time. Environmental bonuses are a new feature to be welcomed. To be easily implemented they had to be based on simple and observable indicators, which explains the chosen conditions of crop rotation and of land diverted to ecological focus areas as well as the maintenance of grasslands. Without denying the difficulty of defining such payments in a satisfactory manner, the shortcomings of the system proposed are the low requirements in relation to existing practices (crop rotation and portion of farm land in ecological focus areas) and the high cost of environmental bonuses due to their implementation methods (supplements to basic payment on all the farm land, without regard to foregone income). The argument of forcing the hand of intensive and highly specialised agriculture has been heard, but it is not necessarily convincing, for the windfall effects will be widespread. By defining requirements for ecological focus areas on a spatial rather than an economic grid, with the possibility of adjusting their rates over smaller areas with an obligation exchange system, this would allow to take soil fertility into account and to obtain minimum requirements of biodiversity hotbeds thanks to a contiguous network over the rural area. The grassland support mechanism does not comprise a chapter to encourage the restoration of grasslands, which would be desirable in certain areas where SFPs have given rise to opportunistic conversions.

The economic justification of basic payments by claiming food supply security remains problematic. The apparent need for these payments to provide the financial stability of some very large and modernised farms is the result of a static and virtual vision for the large majority of arable crop farms. Furthermore, capping has only had a limited impact because of wage bill deductions from entitlements cealings. It is a long way from a true ambition for fairness in the use of public funds, as this use is not well-founded. As long as basic payments are linked to land, transferable, uncapped and with no clear relationship between foregone incomes and the required obligations, they will simply provide additional earnings and lead to a race for land ownership, as soon as the size of the holding allows the farmer to reach a fair level of income. It would be better to foresee a gradual decrease of the basic payment with a transfer to the crisis reserves. There is one major positive point to be highlighted in basic payments, however: the break away from historic references opens the possibility of rebalancing support between farms, farming orientations and regions.

The main market measures implement an array of instruments that represent real progress in mitigating economic risks and in rebalancing competition between farmers and the sector downstream. The creation of crisis reserves outside the MFF is an excellent initiative. Coordination of stabilisation tools that come under three types of funds (pillars I, II and funds outside the MFF) will not be without its problems. The extension of powers to all POs to negotiate contracts and prices should become a reality some day. There will remain, however, a large portion of isolated producers facing dominant purchasers. But giving the means to dispersed sellers, *i.e.* farmers, to create oligopolies in response to large agri-food and distribution groups is not without its drawbacks. A more active policy to measure the effectiveness of competition downstream (and indeed upstream) of agriculture, and increased vigilance concerning concentrations will also be necessary.

The organisation of pillar I and pillar II funds is an important factor, but it is less affected by the reform. The creation of crisis reserves outside the MFF is one of the prominent innovations of the proposal. It amounts to the beginning of a third pillar in the CAP. Better consistency between first and second pillar aid thanks to the reform of SFPs is to be welcomed. Nevertheless, coordination between pillar I environmental payments that are entirely financed by the EU budget, and contractual AEMs co-financed by member states will be put to the test. Maintenance of pillar I basic payments and therefore their totally Community-based financing does not eliminate calculation by member states in terms of CAP budgetary ‘returns’. In a future stage the more systematic creation of a third pillar (crisis reserve outside of annuality) can be expected. This would bring together all the financial means to manage market disturbances, means that are currently dispersed in the first two pillars, with a progressive shift of some of the basic payments towards pillar III.

The current proposal is not a radical change. It only partially corrects the negative effects of the CAP on the environment and those concerning the sector’s total dependence on support, due to the maintained capitalisation of payments in land. Real targeting on the public services provided by agriculture is not fully completed. The effects of incentives for good practices and the adjustment of aid to the actual costs of supplying public goods remain in the initiation stage.

Four major issues at the least remain to be dealt with in the next stage:

- bridging the differences between levels of aid and the value of public services provided, or at least the additional costs linked to providing them,
- eliminating the link between payments and land value in order to reduce the effects of windfalls gains and remaining rents,
- improving spatial differentiation or zoning of the agricultural policy to better match natural conditions,
- clarifying the CAP’s financing rules in order to keep pillar I for real European public goods (EU budget), pillar II for local or national public goods (co-financed), and pillar III for market intervention and multiannual crisis reserves (EU budget, outside the MFF).

The announced reform is therefore a significant and important one as it redirects the CAP towards European public goods and initiates its freedom from positions of interest inherited from the past. But it falls short of a major reform. It will be necessary to re-examine it, either by anticipating the negative effects, or by correcting them afterwards, which, politically, is more realistic. This reform remains a positive development, undoubtedly the only window that is politically open in the economic context, which confirms a clear direction and will lead to progress if political representation does not water it down excessively, either at the decision-making or the implementation phase.

To conclude, it is necessary to add a special note of a social and ethical nature. Discussions on food aid for the most deprived persons, financed by the EU, have highlighted major disagreement between member states, as it is no longer about disposing of the structural surpluses created by the CAP itself, but rather about financing its actions. A regulation, separate from the single CMO and outside the CAP will be proposed as a replacement, which is justifiable. The political fatigue of certain member states whose net financial balances are deeply in the red is also understandable, just like their aversion to once again supporting a large proportion of a new Community redistribution policy. Nevertheless, it is paradoxical to place so much importance on the argument of food security to justify the CAP, which gives quite large subsidies to certain individuals with large production units on the one hand, and to reject all mechanisms (possibly co-financed by member states to avoid opportunism) to ensure access to food for the most deprived, on the other. We can add that it has been known for a long time, and especially since the work of Nobel Prize Winner Amartya Sen, that when a fraction of the population suffers from hunger, it is always because poor people are lacking means to accessing food and not because of global food shortage.

Annex
Possible convergence of per-hectare payments in France between 2011 and 2019

In its chapter on basic payments, the reform proposal sets out that "all payment entitlements activated in 2019 (…) should have a uniform unit value". A transition period is therefore planned between the entry into force of the reform on 1 January 2014 and 2019. The map below proposes a projection of the possible evolution of average per-hectare payments across French departments between 2011 and 2019[32]. This projection is based on simplifying assumptions formulated from the reform proposal.

Assumption No. 1: The evolution described only covers the sum of the basic and environmental payments in 2019, compared to average SFPs in 2011. It is therefore assumed that all beneficiaries will be able to meet the environmental payment conditions. As this is mentioned in footnote No. 17, the two payments could represent 88% of the national envelope.

32. Defined as the % increase or decrease that uniform payments in 2019 – sum of basic payment and environmental bonus – would induce relatively to the amounts of average SFP per hectare in 2011, most recent year in which information on average SFPs per department was available.

In addition, the area eligible for these two payments is assumed to be between the area eligible for SPEs (+10%) and the UUA.

In 2019 the national average of the two cumulative payments would therefore be between €210 and €250.

Assumption No. 2: The map below shows the hierarchy of the departmental per-hectare averages of SPEs and their possible variation between 2011 and 2019. These calculations have been carried out by assuming that convergence would be applied to the whole of France and not on a regional basis to be defined according to objective criteria. Defining uniform rates per region would then be another possible scenario.

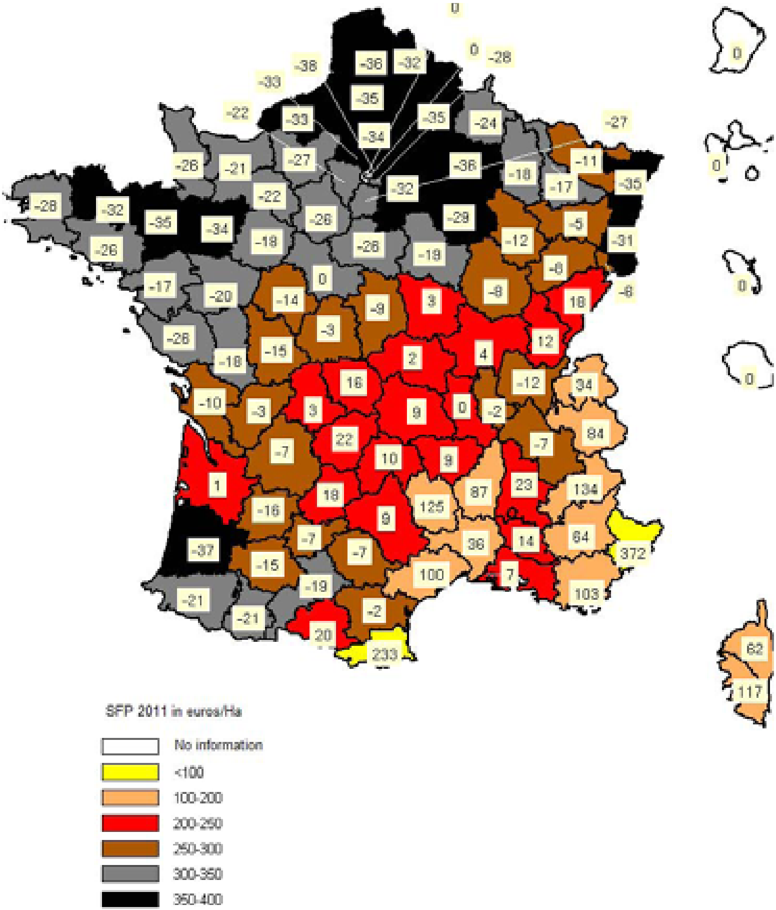
In terms of average per-hectare payments:

- The map opposes the north-west, the south-west and Alsace where SFPs are high (arable crops and dairy and cattle farming) to the centre, where pasture farming is relatively important, and the south-east, where Mediterranean crops or the mountain dominate.
- In the case of national harmonisation[33], there would be a drop of up to approximately one third of average payments in the north-west with very significant increases in the mountainous or Mediterranean south-east.

Beyond the assumptions made for this projection, the map does not take into consideration other new targeted payments from pillar I (disadvantages areas, coupled support, etc.), or support remaining from pillar II prices and payments. The national envelope of the latter is around 10% of total aid but may represent much more in certain production systems, particularly pasture and mountain systems. The current heterogeneity reflects the history of the CAP and of product support. Convergence will forcedly lead to a redistribution that may result in reluctance.

33. Towards a payment of €250 which is the upper end of the range possible for 2019.

Map
Hierarchy of departmental per-hectare averages of SFPs in 2011 and possible evolution (in %) of average per-hectare payments (basic + environmental payments) from 2011 to 2019.



The issue of convergence of per-hectare aid rates between farm holdings, and of their differentiation in relation to their contribution to public goods and to strategic objectives, is not an easy one to resolve. Beyond first- and second-pillar aid, the definition of convergence should take into consideration all farming subsidies (including national aid) and their consistency with public objectives.

As shown in the table below, average SFPs represent a heterogeneous share of total subsidies received according to the type of holding. It can thus be seen that certain pasture-dominated farming receives a substantial addition to the rather modest SFPs and that intensive ‘battery farming’ receives SFPs that are slightly higher than the average. It appears that the convergence of aid rates based uniquely on the first pillar only provide a partial picture of homogenisation. The differentiation of rates according to the contribution to public goods needs to be based on a global vision of support and the eligibility conditions that are associated with it. It can also be noted that the complements to SFPs, which are significant in the case of cattle and sheep/goat production, do not allow these holdings to reach the overall average of income per self-employed Annual Work Unit (AWU), or to come close to that of arable or intensive farming.

Table
SFP and other farming subsidies in proportion to the UUA surface, according to holding orientation (2010).

Data for 2010	SFP per hectare of UUA	Other farming subsidies per hectare of UUA	Average arera in UUA	Net operating result per self-employed AWU
Economic and technical orientation (ETO)	€/hectare	€/hectare	hectare	k€
All orientations	266	105	84	30.9
Cereals, oilseeds and protein crops	288	35	123	42.5
General crops	336	37	121	59.2
Flowers and various horticulture	93	472	6	21.8
Fruiit crops and various arboriculture	126	372	22	17.08
Viticulture	84	108	22	38.6
Dairy cattle	299	99	86	25.7
Beef cattle	206	209	101	15.7
Sheep/Goats	200	252	86	19.6
Pigs	270	95	60	36
Poultry	286	86	47	29.5
Mixed crop/Livestock	286	86	112	30.5

Source of data: Agreste Chiffres et données, Agriculture RICA France Tableaux standard 2010.

Glossary of acronyms used

AEM: Agri-Environmental Measures

CAP: Common Agricultural Policy

CMO: Common Market Organisation

GIS: Geographic Information System

GNP: Gross National Product

MFF: Multiannual Financial Framework

SFP: Single Farm Payment

WTO: World Trade Organization

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